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George G. Graham

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The Grace Commission: How Much Waste in Government?

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Searching for hunger in America

GEORGE G. GRAHAM

ON SEPTEMBER 8, 1983 President Reagan appointed a Task Force on Food Assistance and asked it to determine if the $19 billion a year going into federal food programs were failing to protect the poor in the United States from hunger and malnutrition. Before any appointments were actually made, the press and various "food activists" had already mounted an attack on some of the prospective members, including the author of this piece, who had had the audacity, in hearings before the Congress, to doubt that there was a serious national problem of undernutrition, and to question the accuracy of claims made for the achievements of the Special Supplemental Food Program for Women, Infants and Children (WIC).

The Task Force held meetings in different areas of the country and then had its final meeting on January 9-10, 1984. All of its sessions were open to the public, as required by law. Late in November a "skeleton" draft of a report had been prepared by the staff of the Task Force as a basis for discussions and comments. It was promptly leaked to the press and was used thereafter as the basis for attacking the Task Force's supposed findings and recommendations. In this draft, and to a residual degree in the actual report of the Task Force, there was apparent a degree of confusion in the use of the terms "hun-

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ger" and "malnutrition," and also a confessed difficulty in measuring the exact extent of "hunger" in the United States. Given the widely different ways in which hunger had been defined during the preceding 17 years, it was not surprising that the staff—economists mainly—should have had such difficulty. But their hedging provided a further opportunity for the media to ridicule a Task Force which could not estimate the dimensions of a problem that was there for everyone to see. After all, pictures of "street people" and "new poor" on line at soup kitchens had been used over and over again to document the problem and to condemn the administration for its callousness toward the poor.

In the United States today, particularly in the Congress and in the media, there is an idea afoot that underlies much of the bitterness and confusion generated by the subject of hunger. In its simplest terms, this idea states that unemployment and underemployment in the United States are associated with poverty, and that poverty equals hunger and malnutrition, which in turn equals the stunting and wasting of children and increased infant mortalities. Just how this idea gained its ascendancy in a country with the most abundant and least expensive supply of food in the world is of considerable interest.

Since 1967: an overview

Early in 1967 a U.S. Senate subcommittee toured rural Mississippi and brought back alarming reports of hunger and malnutrition. The Congress responded by asking the Department of Health, Education and Welfare to undertake a survey of "the incidence and location of serious hunger and malnutrition in the United States": A Ten-State Nutrition Survey was conducted during 1968-70, focusing on lower-income groups. It had an intentionally biased overrepresentation of blacks, Puerto Ricans, and Mexican-Americans among some 40,000 surveyed. Preliminary reports to the Congress and to the media painted a grim picture of iron deficiency anemias, of severe vitamin A deficiency, of poor child growth, and of unhealthy obesity among adult women. The Children's Bureau, for its part, had previously decided to fund a national nutrition survey of preschool children and this was carried out during 1968-70.

Also in 1967, the Field Foundation had dispatched its own team to Mississippi, and later that year the Citizens' Crusade Against Poverty, chaired by Walter Reuther, appointed a Citizens' Board of Inquiry to conduct a set of "hearings" in the South, on the Indian reservations, and in some of the large eastern cities. It culled infor-

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mation from various sources but itself gathered little or no first-hand medical, anthropometric (body-measurement), or dietary data. Its widely publicized report, "Hunger USA," claimed that there were more than ten million hungry and malnourished Americans. The media pitched in with their own vivid accounts of hunger, malnutrition, and semi-starvation throughout the country. Tiny premature infants were pictured as being the result of maternal undernutrition and morbidly obese women as the victims of inadequate protein intakes.

In December of 1969 the White House Conference on Food, Nutrition and Health was held under the chairmanship of Dr. Jean Mayer. Its panel on child nutrition stated in the final report that "hunger is a biologic phenomenon and is not in itself indicative of disease or of unsatisfactory nutritional status" and that it "should be clearly distinguished from undernutrition (chronic calorie deficiency) and malnutrition (disease caused by deficiency, excess, or imbalance of nutrients)." Chairman Mayer was quoted, however, as saying: "For most of the people engaged in social action, hunger has a broader meaning. It is synonymous with deprivation. Deprivation of food is one aspect, but deprivation of money, of social status, of right—all these things are part of the overall picture. Malnutrition itself has a vaguer meaning: It is a lot of things that are not being done for people that ought to be done." He went on: "For instance, everybody seems to have agreed, as sort of an explicit postulate of the Conference, that we are going to deal with hunger and malnutrition by having poor people go to the same . . . supermarkets as everybody else to buy food of the same quality and at the same price as everybody else."

Responding to the alarming reports and to the emotional rhetoric of the day, the Congress and the Executive expanded the existing food assistance programs and created new ones, especially the WIC program. The mandate of this program, in a new departure, called for a formal evaluation, including the measurement, within six months, of the pilot program's effects on infant and child intelligence, so convinced of its anticipated benefits had our legislators become. Some time in the late 1960s had been born the simplistic concept that poor school performance and antisocial behavior could be attributed to inadequate or improper nutrition. It seemed attractively easy to solve these difficult problems with food, of which we have plenty.

In a short time the furor that had raged through the nation was brought under control, and in an April 30, 1979 hearing in the Sen-

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ate to assess the progress of the past ten years, the virtual defeat of hunger and malnutrition was proclaimed. Dr. Mayer was later quoted as saying:

> In 1967, the support of the Field Foundation allowed a medical team to range throughout the country to identify those areas where malnutrition was prevalent. It became clear that a number of sections of the nation were involved, with practically every ethnic group—white, black, Chicano, Puerto Rican, Indian, Eskimo, Aleut—represented. By our best estimates, over 20 million Americans were hungry, malnourished, and far too poor to afford the $106 a month the Agriculture Department estimated would feed a family of four a minimally adequate diet. The worst off were those who are always the most vulnerable; infants and young children, pregnant and nursing women, and the elderly.
>
> Last year, the Field Foundation again sent a team, many of them the same physicians, to retrace their steps of a decade ago: This spring they reported to the Congress that while the facts of poverty in the areas surveyed had not changed, they no longer could find cases of medically demonstrable malnutrition in any of the countries where malnutrition had been found previously to be prevalent. They concluded that "in the area of food there is a difference." They went on: "The Food Stamp Program, the nutritional component of Head Start, school lunch and breakfast programs, and to a lesser extent the Women-Infants-Children feeding programs have made the difference."

But late in 1980, after the election of Ronald Reagan, hunger and malnutrition quickly reappeared in full force. And as the recession deepened through 1982, the media began to carry more and more stories about the "return" of hunger and malnutrition to the United States, accompanied by pictures of the "homeless" along with statements from them and their self-appointed advocates. The Food Research and Action Center (FRAC) issued a report early in 1983 indicating that, as a result of unemployment, poverty, hunger, and malnutrition, infant mortality rates had gone up alarmingly in 1981, particularly in the state of Michigan. Committees of the Congress held hearings to discuss hunger and malnutrition, homelessness, and infant mortality. Much of the testimony represented a sincere concern for the homeless and the unemployed on the part of voluntary agency, city, state, or Federal program representatives. Too much consisted of highly political distortions of the facts.

During all of 1983, and with increased intensity during the short life of the Task Force, the public was regaled with more media accounts of increasing hunger and malnutrition. Early in 1984, FRAC issued another dramatic report, this time pointing to the well-known (but poorly understood) fact that black low-birthweight and infant mortality rates were twice as high as those of white infants, and attributed the differences to poverty, maternal undernutrition, and

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lack of prenatal care. Another highly publicized "survey" claimed an alarming incidence of childhood malnutrition in Massachusetts.

Surveys and pseudo-surveys

A re-reading of "Hunger USA," the 1968 report of the Citizens' Board of Inquiry, is illuminating. Although it is obvious that the "team" was touched and shocked by its encounter with poverty, neglect, filth, and misery among some of our rural poor, it is also obvious that there was very little that could be considered sound survey methodology behind the report and much that qualified as purely anecdotal and unscientific cause-and-effect assumptions. At the April 30, 1979 hearing, in response to a question from Senator Dole, one of the participants in both Field Foundation surveys admitted: "We made no surveys in the scientific sense on our second trip to look at hunger. We did very little in the way of physical examinations . . . ."

The official report of HEW's Ten-State Survey in 1972, and additional reports from a special review committee appointed by the American Academy of Pediatrics in 1973, painted a picture very different from the sensationalistic preliminary reports. These more scientific, later reports did reveal an apparent disproportion of children with relatively low height-for-age, but noted that much of this was among Mexican-Americans in Texas and California, whose shorter stature is probably the result of a combination of previous undernutrition and of genetically determined smaller size. The total percentage of children with low weight-for-age, though lower than for height-for-age, was still higher than expected from the scientific criteria then in use. But if a proper weight-for-height criterion had existed at that time, it would have revealed a *less*-than-expected percentage of underweight and a *higher*-than-expected percentage of overweight—as has been found in every subsequent survey of lower income groups, particularly among Hispanics and Native Americans.

The reports of the Ten-State Survey noted a relatively high incidence of iron-deficiency, usually associated with anemia, among blacks. How much of the difference was due to the fact that normal black children have lower blood hemoglobin contents than normal white children, how much of the deficiency was due to the use of standards which are now considered inappropriate, and how much was due to real dietary deficiency of iron or to excessive losses of iron from the body—all this is not clear. The scientific explanation of iron-deficiency is still in the hypothetical stage.

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The vitamin A deficiency reported in the Ten-State Survey, which had made so many headlines, was almost exclusively in Mexican-Americans. It was characterized by low dietary intakes of preformed vitamin A and low blood levels of the vitamin, both of which are characteristic of populations primarily consuming foods of vegetable origin and making their own vitamin A from carotenes in the diet. In the survey there was practically no evidence of the clinical manifestations of vitamin A deficiency that might have been expected from the alarming statements that had been made. With the single exception of this vitamin, the survey revealed *no* economically-determined differences in the concentration of nutrients in the diet. Differences found in the total amounts of food consumed are explainable on the basis of differences in body size and physical activity. Thus, today we know that poor adult women, though consuming less calories than their middle-class counterparts, are considerably heavier because they expend fewer calories on exercise. The review committee of the Academy of Pediatrics concluded in its report that the Ten-State Survey did not point to the prevalence of "hunger of a kind widely advertised in a 1967 television spectacular."

The 1968-70 Study of Nutritional Status of Preschool Children was intended to provide an overview of a cross-sectional representative sample of all preschool children in the United States, not just of poor children (as in the Ten-State Survey). Black and white boys and girls, when compared without regard to socio-economic status, were very similar in height and weight. At comparable socio-economic status, however, black children were heavier and taller in almost every age and sex group. Within each racial group there was—as there is almost everywhere in the world—a positive correlation between social class and body size.

Despite the fact that infants and children in this country have been measured under many circumstances and for many years, there has been, until recently, a disconcerting paucity of solid criteria —reliable reference data which might be appropriate for the assessment of nutritional status from national, local, or individual growth data. Until the mid-1970s most such data had been evaluated against the so-called "Boston" (or Harvard) and "Iowa" reference data, both of excellent quality but derived almost exclusively from middle-class white children. Even the WHO/FAO tables of recommended intakes of calories and of protein for children were related to the mid-point of the Boston growth data. Although references to this well-known set of data should not be taken to mean that all children, regardless of race, have the same potential body size, the careless or uninstructed too often take it to mean just that.

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Our National Center for Health Statistics (NCHS) has calculated and published a new set of growth curves, which were derived from a large national probability sample. This means that all racial and socio-economic groups are represented in the same proportion as they exist in the population. For the first time this new reference material, though its analysis is far from complete, includes weight-for-height tables for infants and children, making it possible to assess properly this important indicator of current nutritional status. These NCHS curves, though derived from measurements made many years after those in the Boston and Iowa references, are quite similar, suggesting that there has been little further progression in the size of children in the United States. But such an interpretation would not be correct. The older sets of measurements were primarily from white middle-class children: If a proportional national representation of poor white children and of black children from that era had been included, the median heights and weights would have been considerably lower at that time.

The national health and nutrition surveys of 1970-72 and of 1977-78 both revealed that white children had continued to increase in size-for-age at a progressively slower rate, that black children had continued to outpace white children in their growth, and that the rapidly increasing numbers of Mexican and Central American immigrants tended to hold down (at least initially) median or average heights, but not weights.

Although large national surveys are extremely valuable and necessary, they are expensive to conduct and to assess, resulting in analyses that are often delayed and incomplete. The Centers for Disease Control (CDC) of the United States Public Health Service have begun and steadily expanded a system of Pediatric Nutrition Surveillance which is based on the prompt analysis of anthropometric and hemotologic data from disadvantaged children enrolling in WIC, Head Start and other federal and state programs. These are reported on a quarterly and annual basis and allow prompt recognition of national or local trends at a very low cost.

During the ten years of the Surveillance program's existence, the percentage of low height-for-age has been consistently *less* among poor black preschool children (two to five years) than among poor white children. The percentages of poor preschool children below the fifth percentile of weight-for-height have been around 2 percent for whites, 2 to 3 percent for blacks, 1 to 2 percent for Hispanics, below 1 to 3 percent for Native Americans, and 3 to 7 percent for Asians. The highest incidences of weight-for-height above the 95th percentile (arbitrarily defined as obese) after 12 months of

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age have consistently been found among poor Hispanic and Native American preschool children, particularly the latter. In the six to nine year-old category, all poor groups *except* blacks have more than 5 percent of children below the fifth percentile of NCHS height-for-age data, further confirming the observations of the past 20 years that black American children are genetically taller than those from other ethnic groups and that the gap in statures is widening as their nutritional status continues to improve.[1]

The report of the "1983 Massachusetts Nutritional Survey," released directly to the media immediately after the Task Force completed its deliberations, took great liberties with the collected data, which in actuality were little different from those reported by the CDC's Pediatric Nutrition Surveillance system for similar children. The small Massachusetts sample was more heavily biased than in the case of the Ten-State Survey. By drawing from Emergency Room attendees and from children attending health care facilities in poorer areas of the state, it was not only sampling the poor, which was quite appropriate for the intended purposes, but it was also sampling the sick, complicating any interpretation. Racially there was also a strong bias, with 22 percent black, 22 percent Hispanic, 40 percent white, 4 percent Asian, 1 percent "other" and 11 percent with no racial identification. The over-representation of Hispanic and Asian children was particularly strong, that of blacks less so. In the interpretation of the findings, the report used the terms "chronic undernutrition" and "stunting" to refer to any and all children below the fifth percentile of NCHS height-for-age reference data. For children below the fifth percentile in weight-for-height the terms "severe, short-term undernutrition" and "wasting" were used. Both sets of terms are lifted from the Waterlow classification of children in the *underdeveloped* world and are totally inappropriate for children below the fifth percentiles in the United States, most of whom are entirely normal and neither stunted nor wasted.

[1] The next logical question, whether Hispanics of Mexican and Central American origin are genetically shorter than whites or blacks, is more difficult to answer, given the constant influx of new migrants suffering from undernutrition and the possible long-term effects on stature of undernutrition in early life. Most anthropologists are convinced of the genetic differences in stature, others are skeptical. The wide gap in stature between Asian and other children is highly suggestive of important genetic differences, but the impressive spurts of growth demonstrated first by the Nisei in this country and then by the Japanese in Japan after World War II throw doubt on the magnitude of such differences. The more recently arrived Asian refugees, whose nutritional status is poorer than that of the recent Hispanic migrants, have already demonstrated significant catch-up in weight-for-height and are beginning to show improved height-for-age. From all reports, however, they are not waiting for their "stunting" and "wasting" to be corrected before performing impressively in school.

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Although the Massachusetts survey found only 3 percent of children, instead of the normal 5 percent, below the fifth percentile in weight-for-height, it still called this "severe, short-term undernutrition." It is nothing of the kind. The percentage of children with low height-for-age was as low among Hispanics (6.7 percent) as among blacks (6.6 percent), which is quite surprising. It was almost as high among whites (12 percent) as among "others" (14 percent), who were primarily Asians, and this is also surprising. With these two exceptions, which raise some questions about the standardization of measurement methodologies, the data are not different from those reported by the CDC's surveillance system. They certainly do not justify the preposterous estimate of 17,500 "chronically undernourished low-income preschool children" in Massachusetts made in the report and immediately quoted by Senators and Congressmen from this state, which has some of the best health statistics in the nation. The report cited "impaired learning ability" among the grave implications of the "chronic undernutrition" that was found: The most "stunted and wasted" group of children, those of Asian origin, are sweeping to the top in the Massachusetts school system, as they are throughout the country.

Low birth weight, premature birth, infant mortality

Until not too many years ago all babies born with weights of less than five and one-half pounds were classified as premature, even though it has long been apparent that many were not. It is, however, now well established that many infants born on or before the expected dates tend to be considerably underweight for their gestational age, for their length, or both. On a worldwide basis the majority of these "small-for-dates" babies are the consequence of maternal undernutrition. In the United States and other developed countries, some "small-for-dates" are indeed the result of maternal undernutrition (as in the case of some teenage mothers), but many others are the result of placental abnormalities, maternal disease, smoking, alcohol and drug abuse, or are due to unknown causes.

In the United States the rate of low birthweights is now around 6 percent among white infants but close to 13 percent among black infants, with the great majority of both being the result of truly premature labor and birth. Infant mortality rates (deaths between birth and one year of age) are now around ten per 1,000 live white births and around 21 per 1,000 live black births. Almost all of the racial difference in mortality is due to premature birth. Although

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healthy survival of prematurely born infants is steadily improving, there is still a high mortality rate among them, and, just as tragically, a significant incidence of cerebral palsy, mental redardation, and blindness among the survivors. Most of the differences in infant mortality rates between the United States and other highly developed countries with lower rates, and between states within the U.S., can be explained by the excess of low birthweight among black infants.

Although maternal undernutrition has some statistical association with premature birth, it is not a strong one and does not establish a cause-and-effect relationship. Most underdeveloped countries with high incidences of severe maternal undernutrition still have much lower rates of premature birth than the United States. A number of other factors, such as maternal age, socio-economic status, smoking, drinking and drug abuse, as well as late and inadequate prenatal care, are also statistically associated with premature birth. After all these factors are "corrected for," the premature birth rate is still twice as high among blacks as among whites, Hispanics, and Orientals. This leaves most of the racial differences unexplained. The causes of premature birth remain the first priority for research into child health in the United States.

In a number of localities it has been demonstrated that a significant number of premature births can be delayed or actually prevented. Basic to the success of such programs has been education of pregnant women to recognize the earliest signs of premature labor and to come to the hospital to receive medication that, in a high percentage of cases, can stop the uterine contractions. Although cost-effective, these measures are not the ultimate answer, which depends on learning the causes of premature labor and being able to prevent it before it begins. One of the postulated causes is infection of the membranes surrounding the infant in the womb; this is felt to be favored by intercourse during the last three months of pregnancy. But whatever the actual cause, if maternal undernutrition were an important cause of premature birth, this would be rampant in the underdeveloped world and relatively rare in the United States: The reverse is true.

The contention that infant mortality rates have increased in 1981 across much of the nation as the result of the administration's economic policies has no scientific basis. It has been postulated by those who make the argument that infant mortality rates in the United States could, like psychiatric illness, increase as the result of economic hard times—but that this increase occurs with a lag of three to five years. If this is true, which is unlikely, then any increase

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in 1981 would have been attributable to the Carter administration, not to the current one. The "cuts" or "non-increases" in welfare programs that were blamed for these claimed increases in infant mortality did not become effective until late 1981 or 1982.

The infant mortality rates that did increase in 1981, as in Michigan, proceeded to decrease sharply in 1982. The truth of the matter is that for a variety of reasons, particularly the vagaries of such statistics, in *any* year some states will show slight increases and others will show decreases. The infant mortality rate for the United States as a whole continued to *decline* in 1981, 1982, and 1983 at almost exactly the same rate as it had for many years. If it was higher than that of 15 other countries, notably those of Northern Europe, this was due almost exclusively to high prematurity and infant mortality rates among black Americans. States that are overwhelmingly white, such as Vermont and Maine, both very poor, have rates which are as low as the lowest anywhere in the world.

Internationally recognized experts on infant mortality, prematurity and low birthweight, child growth, and national surveys of such topics were invited to make presentations to the President's Task Force on Food Assistance on November 17, 1983 in Houston. The national media were particularly invited to attend but, with the exception of the *Wall Street Journal*, did not bother to send representatives. It seemed that most of them did not want their preconceived notions to be confused by hard scientific data.

Evaluations

To the surprise and chagrin of many investigators, it has always proven extremely difficult to document benefits from food assistance programs. In the underdeveloped world, among the very poor, some limited research interventions, for which adequate "control" groups existed, have produced fairly convincing evidence of decreases in infant and preschool child mortalities and, less often, increased birth weights and child growth rates. But this has been in populations having unquestionably high frequencies of maternal and child undernutrition associated with poor growth and high mortalities. In other studies, it has proven far more difficult to demonstrate any benefits. Recognizing these difficulties, due to many interfering factors and to a lack of control groups, the international agencies have generally stopped expecting such documentation and are usually satisfied with proof that (1) food programs have reached the intended recipients within a population and preferably within the family; (2) that these had an initial high incidence of malnutrition; and (3) that the supplementary foods were appropriate to their needs.

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In the United States there have been very few properly planned evaluations of food interventions—with appropriate control groups—at the research level, least of all in actual practice. We generally assume that the obligatory addition of vitamin D to milk products resulted in the near-elimination of rickets and that the enrichment of white wheat flour with B-vitamins was equally efficient against pellagra. Neither of these assumptions, particularly the latter, can be proven because there were no control groups; other changes, such as increased consumption of meat, took place simultaneously. A meticulously planned study among a poor population in Harlem to assess the impact on birth weights of two different supplements given during pregnancy yielded inconclusive results, even suggesting that a high-protein supplement might have increased the incidence of very low birth weights and the associated mortality.

In a study carried out in the underdeveloped world, it was not difficult to demonstrate a stong correlation between socio-economic status, nutrient intakes, and child growth among families from the two lowest economic deciles. Subsequent studies in the same families, after inflation and devaluation had drastically reduced their purchasing power, revealed important changes in their sources of calories, protein, and vitamins but, rather surprisingly, no change in the total intakes of these nutrients or in the growth rates of children. If nothing else, these later studies revealed an impressive elasticity in the buying and cooking practices of mothers. It would be surprising, therefore, if an economic recession in the United States could affect the comparatively much better growth rates and the low mortality rates of enough children to influence national or state-wide statistics.

Perhaps the greatest source of confusion in the definition of hunger and malnutrition is the assumption made by economists, social scientists, and the public at large that having less than a certain disposable income means that a family will automatically not be able to purchase a nutritionally adequate diet, will go hungry on a regular basis, and will become malnourished. The "thrifty food plan," worked out by dietitians at the U.S. Department of Agriculture and used as the basis of the current definitions of poverty, includes very significant amounts of expensive items such as meat and dairy products which could be, and often are, replaced during difficult times by less expensive sources of nutrients. On a worldwide basis the four most important sources of dietary protein for man are wheat, rice, maize, and the white potato, all repeatedly maligned as "just starch."

No scientific attempts have been made to measure the nutritional impact of food stamps and school feeding, by far the largest

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food assistance programs. Most authorities, nutritional or political, concede that food stamps are in reality an income supplement, and would not expect any meaningful evaluation of their nutritional effects to be possible. Although school lunch was introduced as a nutrition program, and there are thousands of pages of testimonials about its favorable impact on the growth, health, and school performance of the participants, its real nutritional impact has rightly been considered impossible to measure. There is little doubt but that thousands of children, not necessarily from the lowest income groups, have benefited from the regular consumption of nutritious meals in school. When the great majority of the participants in such a program are normally nourished or overnourished, however, it becomes impossible to document the nutritional benefits which might accrue to a relatively small minority.

The legislation which created the WIC program had called, as already indicated, for evaluation of the pilot stages and of the fully-developed program. The near-impossibility of the task, given the public objection to control groups, frightened off most prospective evaluators. The General Accounting Office, mandated by the Congress to evaluate the original evaluation, decided that serious flaws precluded the drawing of any conclusions from the evaluation and told Congress as much. Well before this, however, the WIC advocates in the Senate had already decided to enlarge the program. The report of this first evaluation claimed prolonged pregnancies, increased birthweights, and improved child growth as the result of WIC participation. For all sorts of documented reasons, those claims cannot be taken too seriously.

A number of serious attempts have been made to measure the nutritional impact of large WIC programs. They have been directed principally at estimating the effects of prenatal supplementation. Significant favorable effects on mean birthweights and on the incidence of low birthweight have usually been claimed, prolongation of pregnancy less often. When subjected to critical review, all of these evaluations have been found to be flawed in design or in analysis. The most common serious problems have been the use of inappropriate control groups and failure to account for the experience of drop-outs. In one of the better studies, the infant mortality rates among both the participants and the controls were lower than those of the northern European countries, the lowest in the world! This is almost certainly the result of unrecorded premature births with neonatal deaths among the "drop-outs." A large prospective evaluation on a national scale is nearing completion and hopefully will identify the characteristics of those mothers and infants who

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are likely to benefit from nutritional supplements such as those of the WIC program. On such a basis it should be possible to develop well-targeted interventions which allow concentration of resources where they are needed.

The homeless

It is undoubtedly true that there are large numbers of chronically or episodically homeless people in the United States and that they represent a serious charge to our collective conscience. The recent government estimate of 250,000, based largely on the numbers who take advantage of emergency shelters, is probably low; other estimates, from advocacy groups for example, of as many as 3 million are almost certainly high. The very nature of this population makes it extremely difficult to estimate their numbers accurately. To those who are not familiar with these unfortunate people and their problems, and who get their information from television news stories, the homeless are an almost new phenomenon, brought on principally by the heartless economic, housing, food, and social assistance programs of the current administration. Although their problems are an entirely different subject, the fact that their plight has been used as a justification for the proposed expansion of federal food assistance programs calls for some attention.

The truly homeless represent an unknown percentage of those who use the soup kitchens and food pantries which have proliferated during the past decade. It has been claimed that many of the attendees were and are the "new poor," but no reliable estimates are available. There was and still is considerable hardship, embarrassment, and family disruption in relation to high unemployment in certain industries and in certain areas of the country. But at most of the soup kitchens, there is little documentation of attendance by workers with records of previous steady employment whose unemployment compensation benefits have run out (though many of these reportedly are receiving food packages through union halls and private voluntary agencies).

Despite the strong economic recovery there is thus far no published evidence of abatement in the utilization of emergency shelters and soup kitchens. Those being served are not just the traditional "winos" and "bag ladies"; the average age is down to 35 years. Able-bodied young men and women with small children are seen quite often. One possible explanation is that there is an increasing willingness of parents to evict their sons (or daughters) who get into trouble, much of it related to drug abuse. Also an increasing number of women, with or without children, seem to be fleeing from

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husbands, or "live-ins." who abuse them physically. The *New York Times* has further reported that many foster children join the homeless after they are graduated from foster care. All of these groups contribute to the total number of the episodically homeless.

Still, all serious studies have documented the fact that the majority of the *chronic* homeless are chronically mentally ill Americans who have been "deinstitutionalized" during the past 20 years—especially during the past seven, when thousands of Vietnam veterans joined them. During this time, when the population was growing and the incidence of mental illness was increasing (aided by drug abuse), the number of state and mental hospital beds decreased from 560,000 to less than 140,000 nationally.

The extensive literature on the disastrous failure of deinstitutionalization reveals that it began as a "medical triumph and a social rights victory," with the discovery of new drugs to calm the psychotic and suppress their hallucinations, and with simultaneous condemnation of the "snake-pit" state hospitals. These were to be replaced by "the provision of community alternatives for treatment, the release to the community of all institutionalized patients who had been given adequate preparation for such a change, and the establishment and maintenance of community-support systems." What happened? It is, in the words of one commentator, "the story of a reform movement that sought to save such people but wound up forsaking them."

It can't hurt?

Despite vehement claims to the contrary, the most careful and objective analysis reveals what common observation would assert: that there is little evidence of major or even significant hunger and malnutrition in this country, unless some whimsical definitions, such as those quoted in this article, are used for these two terms.

It might be argued that the expansion of food assistance programs can do no harm and might benefit some people other than the nutritionists, the dietitians and the doctors—as John Kramer so accurately predicted in 1969, when he was executive director of the National Council on Hunger and Malnutrition (founded by Jean Mayer!). This is questionable. Outside of the danger of fostering overnutrition among the poor at the same time as the educated are moving in exactly the opposite direction, these programs divert our attention and our resources away from the very real problems of truly disadvantaged citizens. Sometimes, helping those who don't really need help can be the most dangerous enemy of those who do.

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Young blacks and jobs— what we now know

RICHARD B. FREEMAN & HARRY J. HOLZER

BLACK YOUTHS have traditionally fared more poorly in the job market than have white youths. The nature of their problems, however, has changed over the past 20 years. In the early 1960s, for example, black youths earned considerably less than otherwise comparable white youths, and received a lower return on their investments in schooling. While differences between blacks and whites in skill, family background, and location in the country explained some of the black disadvantage in the job market, a large part of the problem was attributable to discrimination. The picture has changed in recent years. Blacks have made advances in occupation and education, and with the onset of equal employment opportunity, affirmative action, and related government and private efforts to reduce market discrimination, the *wages* of black youths have risen relative to those of whites. Yet, the *employment* problem of young blacks has worsened, reaching levels that can be described as catastrophic. In 1983 only 45 percent of black males aged 16 to 21 who were out of school were employed compared to 73 percent of whites in the same category.

From a wage problem to an employment problem

The well publicized youth unemployment problem, then, has taken the form not so much of joblessness among white youths as of

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Table I. Employment and Unemployment Rates, 1954–1983[a]

	Black and Other					*White*				
	1954	*1964*	*1969*	*1977*	*1983*	*1954*	*1964*	*1969*	*1977*	*1983*
Percentage of Labor Force Unemployed										
Age: 16–17 ..	13.4	25.9	24.7	38.7	47.3	14.0	16.1	12.5	17.6	22.6
18–19 ..	14.7	23.1	19.0	36.1	43.8	13.0	13.4	7.9	13.0	18.7
20–24 ..	16.9	12.6	8.4	21.7	27.2	9.8	7.4	4.6	9.3	13.8
Percentage of Population Employed										
Age: 16–17 ..	40.4	27.6	28.4	18.9	13.7	40.6	36.5	42.7	44.3	36.2
18–19 ..	66.5	51.8	51.1	36.9	31.3	61.3	57.7	61.8	65.2	58.0
20–24 ..	75.9	78.1	77.3	61.2	57.2	77.9	79.3	78.8	80.5	74.2

[a] *Source:* U.S. Department of Labor, *Employment and Training Report of the President*, 1982 and *Employment and Earnings*, January 1984.

high joblessness among black youths. The magnitude of this employment problem is shown in Table I. The first three lines give the rate of unemployment from 1954 to 1983 for youths through the age group 20-24. The data show the high levels of unemployment among blacks at every age group, and the comparatively modest rates among whites. It also shows something that is too often forgotten: It is only over the past two decades that this large gap has developed. In 1954 the unemployment rate scarcely differed for black and white youths. The rates rose for blacks in the 1950s and early 1960s, in part because of the movement of blacks into urban centers. In 1950, for example, 36 percent of blacks lived in rural areas, and nearly a third of employed black youths worked on farms. In 1970, 19 percent of blacks lived in rural areas, and just 4 percent of black youths worked as farmers or farm laborers. As measured unemployment is primarily an urban phenomenon, the urbanization of black America explains some of the increase in unemployment during this period. The sharp rise in unemployment rates in the 1970s and the early 1980s, on the other hand, has no such simple cause; for by 1969 the proportion of blacks in rural areas was relatively modest.

The proportion of the population that is employed, shown in the bottom three lines of the table, is in some respects a more direct and better measure of the "employment" problem, because it reflects not only high unemployment but also the low labor force participation rate of black youths—i.e., the high number who report themselves no longer looking for work and are therefore not counted in official unemployment statistics. Many of these youths, particularly

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those out of school, report that they "want a job now" even though they have given up looking. It is thus more proper to count them as potential workers. The employment rates in the table show even greater black-white disparity than the unemployment rates. Even these differences, however, understate the problem, considering the fact that a substantial number of employed black youths hold part-time jobs when they would like full-time work (22 percent compared to 13 percent of white youths in 1983).

For the youngest age groups, some of the decline in the employment rate reflects increased school-going among blacks, and the fact that fewer black students than white students are employed. But while joblessness among students who seek work is undesirable, it is the group that is neither in school nor employed which represents the most serious problem. Thirty-two percent of 16 to 24 year-old blacks and minorities fall into the latter group, compared to 18 percent for whites.

Defining the nature of this job crisis and determining the causes of declining black youth employment are difficult tasks at best. And unfortunately official government data on the labor force activities of youths are not suited to this purpose. The Current Population Survey (CPS), which is the monthly information source on households, basically asks if youths are working or are in school. It asks little beyond whether they are or are not seeking jobs, and how those not in school and not employed spend their time; it provides no information on alternatives to work that may be quite important to these youths, notably crime (broadly defined to include working in the "underground economy"). Finally, there is a serious "respondent problem" in the CPS: One member of the household answers for others, leading, it seems, to a significant bias in answers for youths, as mothers appear unaware of some of the work activity of youngsters.

Taking the inner-city pulse

Data more helpful for understanding the black youth employment crisis are, however, available now from the National Bureau of Economic Research (NBER).[1] NBER developed a set of questions

[1] The research in this article is based in large part on a recently completed NBER investigation of the economic status of inner-city black youth. This four-year study made use of a special survey of these youths by Mathematica, Inc. The individual studies are given in R. Freeman & H. Holzer, *The Black Youth Employment Crisis* (forthcoming). They include George Borjas, "The Demographic Determinants of the Demand for Black Labor"; David Ellwood, "The Spatial Mismatch Hypothesis: Are There Teenage Jobs Missing in the Ghetto?"; Jerome Culp and Bruce Dunson, "Brothers

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Table II. Inner-City Youth Compared to Other Youths[a]

	NBER	*NLS*	
	Inner-city	*All Black*	*All White*
Out of school youth			
Percent in Labor Force	80	90	94
Percent Unemployed	41	33	20
Percent Employed	48	61	76
Average Wages	$4.26	$4.29	$4.53
Average Weeks Worked in Year	26	29	37
Family background			
Man in Household	28%	51%	69%
Household Member Working/in School	41%	56%	71%
Family on Welfare	45%	—	—
In Public Housing	32%	10%	1%

[a] *Sources:* Tabulated from *NBER Survey of Inner-City Youth*, and *National Longitudinal Survey of Young Persons.*

specifically designed for inner-city minority youths and in 1979-80 surveyed over 2,000 black males, aged 16 to 24, in poor, primarily black areas of Boston, Chicago, and Philadelphia. Comparing results from this study with figures for all youths shows the severity of the problems faced by inner-city youths from families in poverty.

As can be seen in Table II these youths are much more likely to be unemployed and less likely to be employed than white youth or all black youth. They tend to earn slightly lower wages than other youths and they work fewer weeks. In addition, these youths have far worse family backgrounds than others. One-third of them live in public housing, and almost one-half of them have a family member on welfare. Only 28 percent of them report an adult male in their households. With respect to "socially deviant behavior" 16 percent of the NBER survey group reported committing crimes; 26 percent reported drug use beyond marijuana; 20 percent reported alcohol use. In short, the more narrowly one focuses on inner-city youth in poverty neighborhoods, the worse the problem looks.

of a Different Color: A Preliminary Look at Employer Treatment of White and Black Youth"; Ronald Ferguson and Randall Filer, "Do Better Jobs Make Better Workers? Absenteeism from Work among Inner-City Minority Youth"; Richard Freeman, "Who Escapes? The Relation of Church-Going and Other Background Factors to the Socio-Economic Performance of Black Male Youths from Inner-City Poverty Tracts"; Linda Datcher Loury and Glenn C. Loury, "The Effects of Attitudes and Aspirations on the Labor Supply of Young Men"; W. Kip Viscusi, "Market Incentives for Criminal Behavior"; Robert Lerman, "Do Welfare Programs Affect Schooling and Work Patterns of Young Black Men?"; Harry Holzer, "Black Youth Nonemployment: Duration and Job Search"; Edward Montgomery and Peter Jackson, "Layoffs, Discharges, and Youth Unemployment"; John Ballen and Richard Freeman, "Transitions Between Employment and Nonemployment."

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At this point, it should be noted that the joblessness of black youths has characteristics not readily apparent in aggregate statistics. Persons can suffer from joblessness, for example, either because they have trouble finding jobs or because they are laid off or discharged frequently. Most black youths suffer from a combination of the two: In general, they find jobs with great difficulty, and these are short-term jobs that are followed by long, extended spells of joblessness. Twenty percent of the youths may hold *no* job in the course of a year.

Much of the black youth employment problem is associated with this slow transition from nonemployment to employment. Still, the loss of jobs through layoffs and discharges is significant. In a society where relatively few people are discharged from work, one-quarter of the youths in the NBER survey were fired, many because of absenteeism. Overall, this higher layoff rate cannot be attributed to differences in human capital or the characteristics of the place of work. Part of the differences can in fact be attributed to lower job tenure itself: Black youths who remain with an employer for an extended period enjoy the benefits of increased job security as do other youths; however, since fewer blacks than whites obtain permanent jobs, more blacks are subject to a vicious circle of joblessness.

It is of course sometimes argued that the joblessness problem among minority youth is a *youth* problem that will disappear with age. This would make it a temporary phenomena, which, though serious, will cure itself. While it is true that the employment of black youths rises with age, the increased employment that comes with age is unlikely to be large enough to remove the problem. Indeed, if the rate of increase in employment with age remains at the level of the 1970s, those blacks 16 to 19 years old in 1979 will not achieve an 80 percent rate of employment for over a decade, and their unemployment rate is unlikely to fall to 10 percent until they reach their mid-thirties.

What has caused the disastrous increase in black youth joblessness? Some claim that the problem is one of declining skills and the weakening of the work ethic; others that it is a case of discrimination pure and simple. Sluggish economic growth, the general rise in unemployment during the 1970s, the movement of jobs from cities, the growing number of women and immigrants (legal or illegal) entering the labor force: All of these have been suggested as causes of declining black youth employment. Indeed, one can ask to what extent black youth employment has been adversely affected by the increase in black youth wages due, in part, to equal employment

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opportunity, affirmative action, and minimum wage legislation. With all these factors at work, it is not surprising that serious research can point to no single cause of this problem, much less suggest a cure-all. What we can do is sort out the contributing factors and attempt to evaluate the relative importance of each.

A useful framework for analysis is to examine the potential causes of high or increasing joblessness in terms of (a) factors likely to affect joblessness by altering the supply of labor and (b) those likely to affect joblessness by altering the demand for labor. It is important to recognize, however, that changes in employment depend on both sides of the job market: a decrease in demand reduces employment or wages in magnitudes that depend on the elasticity or responsiveness of supply; a change in supply similarly will or will not affect employment depending on the responsiveness of employers' wage-setting policies and the extent to which employment expands when wages are reduced relative to other prices. It is clear that any remedy of the situation will involve changing or reversing several of these factors; policies that address only one element of the problem will not be sufficient.

If there is a single unifying theme that runs through the various analyses it is that black youth are quite responsive to various economic incentives and to their social and family environment. The magnitude of the fall-off in employment thus reflects in large part the high responsiveness of young blacks to negative incentives and social-family developments in the 1970s. This suggests that if young blacks were offered different incentives, their employment situation could be significantly improved. Developing policies to change these incentives is therefore the major challenge in any effort to improve the employment rate of black youth.

Help not wanted: demand problems

Among the major demand-side factors which could, to some degree, contribute to high black youth joblessness are the sluggish overall performance of the economy; minimum wage laws and equal employment activities, which raise the wages of black youths; the increasing number of women and immigrants who have entered the job market; and residual employer discrimination.

It is widely recognized that economic growth has been relatively poor in the past decade or so, and that the overall unemployment rate has drifted up. Weak performance of the economy has contributed to the upward drift in black youth joblessness, but we find that it is not a dominant cause. In 1959 and in 1979 the rate of unemploy-

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Table III. Growth of Employment, 1970–1983[a]

	Number of New Workers (in thousands) 1970–1983	*Share of Employment 1970*	*Share of Growth in Employment 1970–1983*
All Workers	22,156	100.0%	100.0%
Women	14,359	37.7%	64.8%
Youths 16–24	4,277	20.1%	19.3%
Black male youth, 16–24	165	1.2%	0.1%

[a] *Source:* See Table I, note a.

ment among white males was approximately the same (4.6 percent and 4.5 percent respectively). The employment rate for 20 to 24 year old black male youths stood at 75.9 in 1959, compared to 65.7 in 1979. There was nearly a ten point drop in the rate at the same cyclical level of unemployment for white men. Put more dramatically, in spite of relatively sluggish economic growth, the U.S. economy from 1970 to 1983 found jobs for 22 million new workers, hardly any of whom were black youths (see Table III). In 1970 1.2 percent of employed workers were black male youths aged 16 to 24, and despite increases in their share of the population only 0.1 percent of the jobs created in the period went to black youths.

This is not to say that the condition of the labor market does not affect black youth employment. Researchers find that the state of the local labor market is, in fact, a major determinant of youth joblessness. In the NBER survey, for example, inner-city black youths in Boston, a city with a relatively strong labor market, had an employment rate some ten points above comparable youth in Chicago or Philadelphia. And analysis relating black youth employment to the overall state of the labor market shows that a one percentage point decrease in unemployment raises black youth employment, over time, by about two and one-half percentage points. Economic expansion will thus raise black youth employment significantly but will not, by itself, restore 1950s employment rates.

It is often claimed that some government programs designed to aid the disadvantaged have unintended consequences for those very groups. The minimum wage, for example, by raising the pay of less-skilled workers (particularly youths), reduces their employability by making them more expensive to employers. There is no doubt that black youth wages have been significantly affected by the minimum wage. The majority of black youths working in 1980 held jobs paying at or about that wage. And while a lower minimum wage for youth would increase the number of youth jobs in the economy,

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and the number of inner-city black youths employed, one still cannot reasonably blame changes in the minimum wage for any *rise* in black youth joblessness in the 1970s, the simple reason being that the minimum wage has *fallen* relative to average wages. In 1970, the minimum wage was 50 percent of average private sector wages; by 1983 it was only 42 percent of average private sector wages. This decline in the relative value of the minimum wage would have tended to *increase* employment of youths over the decade.

Similar questions can be raised about equal employment opportunity and affirmative action. By raising black youth wages, have they possibly reduced employment? The evidence that exists does not support such a conclusion. First, the thrust of the law is to raise demand, not simply wages; an employer who pays "equal wages" but discriminates against black youths (or other protected groups) in hiring is liable to legal suit. Affirmative action programs take equal pay as given and seek to raise employment of protected groups. The most reliable assessment of affirmative action thus far (Jonathan Leonard, NBER Working Papers 1328 and 1346) finds that companies with affirmative action do indeed increase employment of protected groups more than do other companies. Finally, in the late 1960s, when black youth wages rose substantially, there was *no* deterioration in employment (see Table I).

There has long been considerable speculation about the potential effect of the rapidly growing number of immigrants and women in the job market on the employment prospects of young blacks. To what extent does the influx of other workers into the labor market fill up entry-level jobs that might otherwise have gone to young blacks?

Studies show that cities whose work force includes a high proportion of women have had the worst labor markets for young blacks. It is difficult not to interpret this as evidence that the rising rate of female participation in the work force, particularly in the service sector, has hurt the job opportunities for young blacks. By contrast, there is no evidence to support the view that the rise in the Hispanic population (among which immigrants are concentrated) has significantly worsened the job prospects of black youth since black youth joblessness does not differ greatly between cities with large or small Hispanic populations.

Although the increase in black youth joblessness is often attributed to the movement of jobs from cities to suburbs, a careful assessment of the relation between location and employment in Chicago does not find this to be a major factor. The black youth employment

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problem there is one of "race, not space." There are basically two clusterings of blacks in the Chicago area, on the west side and on the south side. There are many factories and jobs on the west side; the south side is mostly residential. On the basis of proximity to work, one would think that those youths on the south side would have far less employment experience than those living close to jobs on the west side. But there turns out to be very little difference between them. Moreover, if one looks only at the borderline between black and white areas of the west side, one finds that the white youths get the jobs. The problem facing these black youths, then, is not a lack of jobs in their area; even when the jobs are nearby, the white youths still get them. The likelihood for success of an enterprise zone scheme must be measured against this fact. For these findings seem to suggest that to raise black youth employment, what is needed is an improvement in the aggregate level of demand for labor in a city, not intra-city changes in the location of jobs.

One way of assessing employer discrimination is through auditor studies, which present employers with the job applications of otherwise comparable black and white workers and observe how the employers treat the applications. Auditor studies in the 1970s have found that employers treat applications of black jobseekers as favorably as those of white jobseekers, that blatant discrimination by employers has effectively been eliminated. It is more difficult to determine if there are subtler ways in which employers may (perhaps inadvertently) discourage or discriminate against black youth. A pilot "audit" project was conducted in Newark, New Jersey in which youths graduating or about to graduate from high school —some white and some black—were sent out, having been told, "Here's a list of jobs that we've identified; go and see what happens. We'll pay you to come back and report to us what happens when you apply for these jobs."[2] The audit project found that the black auditors were treated less courteously, in some respects, than the white auditors. For example, people were less likely to call them "sir." In addition, the project found that white youths had much better links to the job market, and that both white and black youths were what is called "reference poor." They would fill out forms that asked, "Who do you give as a reference for yourself?" and they would list their friends at school. They would not report teachers or previous employers; this was true for both black and white youths.

[2] Interestingly, the researchers had great difficulty finding white youths to participate, apparently because they had good job prospects, while black youths were much more eager to go through this process, hoping to find work.

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For whites, most of whom have jobholders in their families and connections to employers, this lack of references is not as critical a problem in job finding as it is for blacks.

The perception among black youths that employers discriminate, and the quality of jobs these youths hold, also affect their work performance. For instance, youths who claimed that their employers discriminated were more likely to be absent from their jobs. Several other characteristics of these jobs also affect rates of absenteeism among black youth. High wages and high job status lower the frequency of absenteeism; chances of finding work elsewhere raise it.

One of the more surprising findings of the NBER study was the response to questions concerning the ease of finding jobs. A rather large proportion of youths who were not employed and not in school thought they could find a job relatively easily: For example, 46 percent thought it would be "very easy" or "somewhat easy" to find a job working as a laborer. And 71 percent considered finding a minimum wage job to be very or somewhat easy.

This hardly means that there is no shortage of jobs in the inner city. On the contrary, while it may be easy for a given individual to find a low paying job, only a small fraction look for and are willing to accept these jobs at any particular moment. If all of these youths sought such jobs simultaneously and were willing to hold them for longer periods, these jobs would not be as easy to find. In some sense, these jobs are "shared" among youths: They work for a few months at a hamburger joint, then leave.

Attitudes, aspirations, and skills: supply problems

The supply side factors affecting black youth employment might be summarized by the layman as the youths' attitudes and abilities, their willingness to work and the skills they can offer employers.

Among the more intriguing findings on the supply side was that church-going and "right" attitudes or aspirations are important in enabling youths to take steps toward escaping inner-city poverty. In the NBER survey youths were asked whether they attended church and whether they were members of church groups. The idea was that the church, as a major social institution in the black community, would be doing things to help these youths advance in society. Church-going turned out to be a significant factor in reducing such socially deviant activities as crime and drug use, in increasing school-going, and in increasing employment. Put simply, the youths who

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went to church behaved differently from those who did not go to church.

But does one interpret these results as the role of the church as a social institution helping youth, or is it that "good kids" go to church, get jobs, stay in school, don't commit crimes? This problem is treated differently by different researchers. While it is not possible to declare conclusively that church-going is what social scientists would call an exogenous variable or, on the contrary, that it is simply a "good/bad kid indicator," the NBER research found that church-going and various family factors have *different* effects on aspects of youth behavior. This suggests some independent causal role for the church, or as the old fashioned might put it, that church-going builds character.

Apart from church-going and family characteristics, responses to questions on attitudes toward work showed that black youths with strong long-term career desires manage to find work, whereas those without such desires do less well. This implies that efforts to promote positive attitudes towards work (ranging perhaps from role models to Operation Push-type activities) can help reduce the black youth joblessness problem.

While the quality of schooling in inner-cities leaves much to be desired, it is still true that staying in school longer benefits youths. Those who stay in school longer have a lesser chance of committing crimes, a greater chance of being employed, and are more diligent employees than those who drop out of school. In addition, students with better school records (more A's and B's than C's and D's) also do better in the job market.

Finally, recent experiments suggest that a well-developed job program can be effective if linked to school. In the Youth Incentive Entitlement Pilot Project, offers of a guaranteed minimum-wage job during the school year and summer to youths who continue school have managed to provide inner-city youths (and others) with jobs, in addition to prolonging their schooling.

In the National Commission for Employment Policy's Fifth Annual Report to the President and the Congress, the Commission noted that the understanding of youth unemployment has been hindered by a lack of study on the links between labor market problems and illegal activities. The NBER analysis of the relation between youths' perceptions of market opportunities and penalties for crimes helps fill this gap in the data on youth employment. In the NBER survey youth were asked to compare their potential for making money on a job and "on the street." Thirty-two percent of those surveyed saw greater opportunities for earnings "on the street," and

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tended to commit (i.e., admit committing) more crimes. Indeed, about one-fourth of all income of inner-city black youths is from crime. Perceptions of the risk of crime were found to be a major factor in whether youths chose a legitimate job or crime. The youths who felt that the chances to make money illegally were pretty good and who saw little chance of being penalized tended to commit crimes. More often than not, they tended not to be employed, not to be in school, not to spend their time productively, and to be involved with drugs or gangs. Furthermore, when they held jobs, those engaged in criminal activity tended to perform poorly on the job.

Viewed in terms of supply behavior the elasticities of trade-off between crime and employment implied by the NBER analysis are fairly significant. This result is striking, given the scholarly literature on crime. Previous studies of the trade-off between unemployment and crime done on aggregate data for crime rates and unemployment rates have found very modest linkages. In this case better data has yielded a conclusion more in line with what common sense suggests. Crime and employment are alternatives: Poor employment opportunities (or attractive criminal opportunities) can lead to participation in crime, which further reduces success in the legal labor market.

In 1964 Daniel P. Moynihan directed attention to the instability of the black family as a potential cause of economic and social problems for black Americans. Analysis of family factors in the NBER survey shows that, while youths from female-headed households do not do particularly worse in employment than youths from other families, certain characteristics of families matter greatly.

One of the more depressing findings of the NBER project was that persons whose families are involved with major public programs for disadvantaged families do worse in the job market. Youths from welfare homes, with the same family income and other attributes as those from non-welfare homes, do far worse in the job market; youths living in public housing projects do less well than youths living in private housing. Since the "loss" of welfare benefits is slight when youths work, the problems of youth in welfare households cannot be explained as simply a "rational" response to economic incentives. Instead they are more likely related to other factors, such as information and "connections" or attitudes and "work ethic."

It is also noteworthy that young blacks are more likely to hold jobs when other members of the family are employed. Whether this represents an improved ability to find jobs due to better information, "connections," etc., or a greater work ethic learned from knowing

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jobholders, is unclear. In either case, "family-centered" factors that raise job holding and family stability among black adults may offer an important "indirect" approach for improving the job chances in youths.

An important issue in evaluating youth joblessness is the wage at which they would accept work. The NBER survey asked youths specifically about the pay at which they would take a job: "Well, really, how willing are you to take a job at different levels of pay?"; and "would you take a full-time job right now, if it were as a laborer in a factory at $2.50 an hour?" If yes, the interviewer went on to the next question. If no, the interviewer raised the hypothetical wage to $3.50 an hour and then to $5.00 an hour.

The answers to these questions highlight two aspects of the problem. First, the reservation wages of black youths (the lowest wages they say they would work for) turn out to be comparable to those of similarly aged white youth. Since the two groups differ in their possibilities of getting jobs, and there are some differences in the wages at which they do get jobs, a portion of the longer period that blacks are out of employment can be explained by the fact that they maintain relatively high reservation wages. Black youth should not necessarily lower their expectations, nor should they necessarily settle for lower wages than white youths (assuming, of course, that they can even find an employer willing to discriminate by making such an offer). But the fact that they don't adjust their wage expectations contributes to joblessness. Second, the number of youths who expressed willingness to take jobs as pay increased modestly was substantial, implying a high degree of responsiveness to better economic opportunities. In addition, youths made a definite distinction between the wage at which they were willing to take different types of jobs, being willing to accept low-wage or low-skill jobs only temporarily.

Changing labor market incentives

The overall picture of the black youth employment situation that emerges from this research effort is one in which black youth clearly want to work, but only at jobs and with wages that are comparable to those received by their white counterparts. Unfortunately, in a weakened economy, with increased job market competition from women and other groups, and an increasingly disadvantageous family background, the youths have had trouble obtaining such jobs. As a result, many have been led into alternative modes of obtaining money "on the street" and to leisure activities that will

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not get them back on track. The growth of welfare households in which no adults work seems also to have exacerbated the problem, either because of its effect on contacts and information or its effect on attitudes and "work ethic."

The possibility of a solution to the black youth employment problem rests, in large measure, on the responsiveness of the youths to labor market incentives. Provided with choices other than the ones they currently face, black youths will respond positively. However, public or private policies to aid the youths cannot, in our view, be limited to a single policy. They should include not only government jobs programs for youth and aggressive anti-discrimination activity, but also the efforts of a broad range of public and private social institutions, ranging from the welfare system to employers to schools, to the criminal justice system, and to families.

In recent years, we have seen rather sizable changes in social and economic behavior in response to changes in economic incentives. If the right incentives are given to black youths, we may see equally rapid change in their employment status.

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The "reverse sequence" in civil liberties

AARON WILDAVSKY

FOR A NUMBER of years I belonged to the American Civil Liberties Union. To me this membership was part of a commitment to perfecting American democracy. I became a political scientist for the same reason. The two commitments, American patriotism and democratic values, went together. By improving the one—the procedures for participation in political life through protection of individual liberty—the other, America as a force for freedom at home and in the world, would also be enhanced. The combination of a strong national defense, social welfare programs, and civil liberties, as exemplified in the 1940s and 1950s by the New York State Liberal Party (in whose youth division I was active) seemed mutually reinforcing. But that combination, however comforting it seemed in the Eisenhower years, was not to last long.

In the early sixties, while teaching politics at Oberlin College in Ohio, I served for a couple of years on the executive committee of the local ACLU. It was not easy, given our interest in procedures per se, to find violations of proper practice in a liberal arts college town. By moving a few miles away, however, we could come up with a couple of cases of unreasonable search or a few days of possibly unlawful detention. In retrospect, it was an innocent time and I know now, from having read William A. Donahue's *The Politics of the ACLU* that it was, for me at least, a time of naivete as well.

This essay is a revised version of the introduction to William A. Donahue's The Politics of the ACLU *(Transaction Press).*

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The ACLU was never what I thought it was, an organization standing up for people whose civil liberties were threatened by the passions of the time. The ACLU has always been what Donahue says it is—an organization committed to a shifting agenda of substantive policy change as dictated by the political perspectives of its most active members.

Nor was the ACLU what its "purist" members thought: to refer back to its name, a union of people concerned primarily with civil liberties. Whether it was support for unions in the 1920s and 1930s, the New Deal/Fair Deal social welfare agenda of the 1940s and 1950s, or its devotion to equal outcomes since the 1960s, the ACLU has viewed civil liberties, so Donahue shows, as instrumental to other purposes.

Starting somewhere in the mid-1960s, it became apparent to me that I was out of sympathy with the ACLU. Either it had changed, as I then thought, or I had changed, or both. Saddened by the loss of a sympathetic association, and even, to an extent, a source of identity, I wondered what had happened to it or to me.

To say that organizations must adapt to a changing environment is a cliche. The ACLU is anomalous only in that it is such a classic example of the very spirit—absorption into the dominant values of the time—that the naive like myself once thought it was supposed to counter in favor of eternal verities.

When a group organizes to make demands on government to support the group's economic self-interest, no one is surprised that organizational doctrines change as a means of securing the substantive end of increasing its income. That large oil companies should favor market forces when these produce high prices, and governmental allocation when gluts produce low prices, raises few eyebrows. For organizations like the March of Dimes to seek new diseases to conquer after polio declined, has been a subject of mild amusement. For the ACLU radically to reorient its position on fundamental issues decade-by-decade, so that there is little relationship between what it said 50 years ago and what it says today, is more surprising. Yet this is exactly what has happened.

Quotas, anathema in the past, now have become desirable as a form of positive discrimination. (Who remembers when the ACLU taught that the Constitution was color blind?) Balancing competing values—order in society with the rights of the accused—has given way to attacks upon authority. ("Lawlessness," the ACLU now says, "is a direct consequence of the failure of the community.") In briefest compass, the ACLU, once devoted to achieving individual free-

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dom from government restraint, has become a convert to advocacy of governmental compulsion to achieve equality of condition. From defense of individual differences against government, the ACLU has moved to diminish differences among people—white and black, rich and poor, young and old, authority and citizen, parent and child—the list grows all the time.

Just as the ACLU identified itself with industrial unionization in earlier times, it has in recent years become part of the civil rights movement, the women's movement, and the movement against "ageism" and other "isms" devoted to diminishing inequalities in American life. There has been no conspiracy. No one pushed me out to put the present participants in. Two things happened concurrently: Activists in these other movements moved into the ACLU, and people discomforted by this trend toward support of equal results moved out. The process is self-reinforcing: New policies attract more like-minded adherents. No one has to tell the ACLU membership what to do. They can guess what equality of condition requires, and trial and error tells them what catches on with the people who flock to their cause. What is behind this reversal of values and practices?

The "original sequence"

Americans are able to agree about the desirability of equality because they mean different things by it. Equality before the law (or equal rights) signifies that people in similar positions will have similar legal standing, so that administrative and judicial decisions will be uniform and predictable. Equality of opportunity signifies the ability to enter contests of various kinds and to keep the proceeds, providing only that one does not prevent others from trying. Equality of condition (or outcome, or result) means that the resources possessed by individuals and groups in society should be roughly equivalent. Rights, opportunity, and outcomes are worlds apart, so distant in practice that it has proved expedient for many to deny the full extent of the differences.

The much-remarked unideological, or better still, a-ideological character of American political history may be attributed to the denial of these differences. Rather than admit that more of one meant less of another, it has been the special bent of American political thought to claim just the opposite: More of one kind of equality would also lead to more of another. Equality before the law, secured by such devices as extension of the franchise and a Bill of Rights providing procedural guarantees, would help secure opportunity to

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participate in political and economic life. And genuine equality of opportunity, by preventing government from introducing unnatural inequalities into American life, would produce as much equality of condition as is compatible with the innate or behavioral differences among people or as is necessary to preserve republican government.

American exceptionalism is not just the absence of hereditary hierarchies, though that was (and still is) important. What was truly distinctive, in that it was not found elsewhere, was the belief that equality of opportunity, properly pursued, would lead inexorably to equality of condition. Believing people to have moderately equivalent skills and observing that social and economic conditions were far more egalitarian than in Europe, early Americans thought that competition would increase or maintain whatever equality there was; inequality could not come out of competition, unless, as the Jacksonians feared, government introduced banks, charters, franchises, and other privileges not equally available to all citizens.

Observe the initial sequence of relationships among ideas about equality. They run from equality before the law, to equality of opportunity, and only then to equality of results. Of course, the prospects for republican government were related to the relative equality of condition fostered by American circumstances. America was blessed. In order, as the Declaration put it, to secure these blessings for posterity, this God-given equality was not to be decreased by the kind of distant central executive against which the colonies had so recently rebelled.

Insofar as inequality of condition resulted from differences in the faculty of individuals (but *only* to this extent, and no further), this was tolerable, expected, and natural, if not entirely desirable. In no way did the varying aptitudes for acquiring property (then considered an attribute or extension of the individual person) seem to threaten self-government. The battles of the party-of-the-country against the party-of-the-king in England were appropriated by the American branch of the British Whig opposition. Without an American equivalent of the King's men in parliament—the hated placemen put there by royal patronage, including the venal sale of offices—neither the English monarch nor his American successors could maintain their preponderance of power. Once these special privileges (the anti-federalists especially feared holders of national debt) were removed, equality before the law would help secure the equality of opportunity that kept sufficient equality of condition so that republican government could thrive.

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As soon as it is understood that the historic source of inequality was found in central governments ruled by strong central executives, there need be no puzzle over the lack of a socialist party in America. The stronger the central government—in this time-bound equation, good at least until the Civil War—the weaker are individual liberties. After the revolution was won and its posterity assured by Jacksonian democracy, the United States of America and its Constitution became the exemplar of good (i.e., reasonably egalitarian) social relations. The flag, and hence the social relations for which it stood, was worth defending. Satisfaction with the circumstances of American life reinforced the original sequence. Inequality of condition could be bracketed-off and accepted, provided that legal and political equality were achieved. In this way a separate and protected preserve for civil liberties could be carved out. Of course there was nothing like universal agreement on civil liberties, but those who thought of themselves as civil libertarians could reflect a simultaneous satisfaction with conditions in general and dissatisfaction with flat-out violations of legal and political rights.

The sequence reversed

But the original sequence—in which equality before the law helps secure equality of opportunity and both, taken together, prevent such gross disparities of condition as to render republican government suspect—was based on assumptions subject to the ravages of time. The rise of corporate capitalism after the Civil War strained the social fabric. Yet populists could not quite bring themselves to turn against their Jeffersonian and Jacksonian forebears by embracing big government as the antidote to big corporations. Eventually populists merged into the progressive movement, which sought regulation to restore equality of opportunity to the conditions of competition in the face of inequalities fostered by giant capital. It took the great depression and the civil rights movement to raise (and, for some, to answer affirmatively) the question of whether the original sequence needed reversal.

It is the *reverse sequence* (to use a dramatic term from a quite different field) that characterized the ACLU world view. Increasingly, unceasingly, equality of condition was viewed as a precondition of equality of opportunity.

Driving home the proposition that the most widely espoused principles—equality before the law and equality of opportunity—had been denied to black citizens, i.e., that the powers that be had not followed their own announced beliefs, the civil rights move-

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ment legitimated much that it touched, including a focus on group as distinct from individual rights. When a number of its leaders came to believe that equal opportunity would, in their circumstances, lead inexorably to inequality of results, they began to seek policies enforcing equality of condition on a group basis. Their position deserves elucidation.

Under their formulation, equal opportunity may promote inequality of outcomes for individuals but not for groups. Their objective is not to alter the range of inequality of results among individuals, they say, but to assure that the same distribution of inequality of results obtains across all relevant groups—whatever that range may be. Therefore, to them, a rough group parity of outcomes is a reasonable measure of the actual degree of equality of opportunity that exists. Thus they argue that no group as such (because it is *that* group) should be denied significant shares of equal opportunity, measured by equal outcomes compared to other groups. Whether those who hold these views, once group differences narrowed, would accept unequal outcomes for individuals within them, I cannot say.

For others, of course, the present range of unequal outcomes (among both groups and individuals) is too high, and their goal is to narrow the range. It is this view, embodied in the reverse sequence, that I believe currently characterizes ACLU action. Without equality of resources, it was argued, competition for the good things of life was prejudged in favor of those who had more and against those who had less. In order to do better, one had to be pre-endowed with the results of already having done better. Hence positive discrimination. What is more, without this substantive equality, the lack of equal opportunity would mean a denial of equality before the law. The opportunities that equal rights had been thought essential to maintain (for those who had them) or achieve (for those who didn't) instead became the prerequisite. Civil liberties had been turned upside down. The causes—equal rights and equal opportunity—had become the consequences of equal results. What had been widely agreed—the indispensability of equal rights as a precondition of equal opportunity—was replaced in importance by what had been problematic—securing equal outcomes.

Liberalism and civil liberties

To this very day, the profound consequences of adopting the reverse sequence remain for those who regard themselves as civil libertarians. The spoken premise had been that people who disagreed about policy outcomes could still agree on process and proce-

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dure. The American political system, it was widely held, was legitimated by agreement that its processes accorded with equality before the law, which nurtured equality of political opportunity. Even if mass attitudes did not always favor the Bill of Rights, elites, despite policy differences, would rally around these procedural guarantees. Exceptions, such as denial of the franchise to black people, were numbered among faults to be corrected; and they were thought to be exceptions, not the rule. Had this not been so, it would not have been possible to distinguish civil libertarians from other people who differed about the role of government or the kinds of policies it should pursue. The reverse sequence not only sought to diminish differences among Americans in general, it also obliterated the rationale for distinguishing a particular kind of American, a civil libertarian, from any other political actor.

Now we know from casual observation, as William Donahue has shown in detail, that most members of the ACLU were politically liberal as well. In the era after World War II, this meant that they (I would then have said "we") favored governmental action to improve the economic conditions of poor people and the political opportunities of racial minorities. Insofar as the reverse sequence meant adopting the liberal welfare program, it may have been uncomfortable for economic conservatives, but not for those who agreed with the substance. (Allowing substance to mask principle was a mistake, but it is not easy for people to see a threat lurking behind those who agree with them on policy.) If the ACLU was becoming more liberal, it must be because liberals cared more than conservatives about the people being hurt—or so I thought in the early 1960s.

In the 1970s, another consequence of adopting the reverse sequence emerged, this one harder to deny. The very government that was urged to achieve greater equality of results was also, by virtue of being in authority, responsible for keeping the deprived down. What else but "the system" (i.e., established authority) denied poor people, racial minorities, and women the equal rights and opportunity that could be enjoyed only by first achieving equality of condition? The disposition to blame the system led to an anti-authority position. This explains why, amidst an epidemic of strong-arm crime, the ACLU fought to make arrest, detention, and conviction more difficult.

At one and the same time, therefore, the ACLU, responding to the reverse sequence, favored stronger governmental action to reduce inequality while simultaneously attacking government's authority. A long-overdue appreciation of this no-win situation—government

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in America damned if it did and damned if it didn't—led to my unwillingness to renew my membership.

I do not mean to say that those who were out of sympathy did not change at all, and that the ACLU did all the changing. We have less reason to cry foul than I once thought. For one thing, those who joined the organization in the 1950s became active during an aberrant period. The patriotism fostered by the war against fascism created common ground that gave way when the enemy stood for something other than gross racial, religious, political, and economic inequality. During the conservative Eisenhower era, widespread antipathy to Communism and the Communist party made it unsafe to leap to their defense. Faced with a bipartisan consensus on security matters, the ACLU ducked difficult issues, not least by bargaining with J. Edgar Hoover, head of the Federal Bureau of Investigation. Of this, the membership knew nothing. What it *did* know was that in those days the ACLU concentrated almost entirely on procedural rights. Criticism and patriotism still seemed compatible. But the decades before and after this period—when, by default, means were more important than ends—were times in which the reverse was more nearly true—policy ends mattered more than procedural means.

Those of us who felt aggrieved at having our ACLU taken from us were too self-satisfied by far. Since we believed in the pure civil liberties project, and those who displaced us did not, we identified ourselves as the long-suffering adherents of the original creed. So far as it went, that was true enough. But we did not understand at that time (certainly I did not) that the initial sequence reflected a set of preferences about how American society should be organized. We were (and are) no more neutral in our views than current ACLU adherents; the difference (and it is profound) is that what they take for granted—the desirability of equal results, even at some sacrifice of equal rights—is problematic for us, and what we assume—the desirability of equal rights and opportunity, even if inequalities do not thereby decline—has become problematic for them. The separation of legal rights from the maelstrom of social life, which in our own eyes makes us true-blue civil libertarians, makes us in their eyes apologists for unconscionable inequalities. And that (leaving out the "unconscionable") is what is in dispute.

Guilty as charged! Some of us discover that we approve of many aspects of traditional morality and, therefore, of the social hierarchy from which it stems. Acceptance of a modicum of hierarchy, moreover, includes respect for authority as well as other forms of

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inequality. Others among us 1940s and 1950s civil libertarians discovered that if we wanted the creativity and spontaneity of market forces, we had to accept the inequality (as well as the vulgarity) that went with it. Had we believed that the combination of hierarchy and market relationships that constitutes whatever established authority remains in American life was vicious—leading to cumulative inequalities threatening American democracy along with its civil liberties—we, too, might have considered equality before the law as an epiphenomenon and equality of condition as all that was worth fighting for.

When the ACLU accepted the reverse sequence (some time in the late 1960s or mid-1970s) it also rejected the insulation of law and opportunity from condition. From then on equality of condition was primary and equality before the law secondary.

The ACLU's future

The ACLU has become an adjunct of movements to attack existing authority in the name of equality. If these movements weaken, the ACLU, if its past is any guide to its future, will abandon the reverse sequence and retreat to delineating a privileged position for legal rights. Should these egalitarian movements grow stronger, the ACLU may well become absorbed into them, making manifest what is now latent, namely, its service as their legal arm. Whatever happens, the experience of the ACLU will have taught us something about the conditions for treating civil liberties as an end in itself.

One such condition occurs when civil libertarians are numerous enough to band together, but still so weak as a group as to require tolerance from dominant social forces. Rather than fight losing battles over the substance of policy, this civil liberties group seeks to separate itself and its issues from substantive outcomes. The stance is tactical: The emphasis is on procedures because the group is sure to lose on policy. Once the group is strong enough to enter contests over policy, civil liberties become the means to more important ends. Those who disagree on substance leave the organization; gradually, the end goals overwhelm the former (and expedient) concentration on the means, and the initial sequence gives way to the reverse sequence.

Are there, then, no social conditions that would sustain disagreement over substance in the midst of agreement over procedures? Yes, but these conditions are delicate in that they require a certain kind of balance among forces. There must be people favoring hierarchy, for without hierarchy there is no place for legal rights,

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universalistic rules, adjudication of who has the right to do what, or predictable responses from government. And to some degree there must be pro-market forces. Without them there would be no one who believed in competition for its own sake. And without people to safeguard the right to switch support, there could be no change in political office. Egalitarians are needed, also, to keep differences —including those between authority and citizen—from growing too large. Otherwise, hierarchies might seek to throttle competition and capitalists to control markets, making it difficult for newcomers to enter. Should any of these social orders grow too powerful (the danger of which Aristotle was well aware), procedural rights would be nullified. Hierarchy might stifle alteration in office and the criticism that goes with it; market forces might create inequalities; and an egalitarian social order might deny liberties on the grounds they would interfere with equality. What the proper balance should be has, to be sure, eluded all of us. No doubt those who promote the reverse sequence would argue there is so little equality of condition that American society could stand for a great deal more before it becomes unbalanced. No doubt others will say that the pendulum has swung too far toward seeking equal conditions. I believe that the reverse sequence, by making civil liberties hostage to prior conditions, will weaken liberty without achieving equality.

To see why this is so—why equal conditions drive out equal rights rather than fully achieve them, as is commonly asserted—consider the coercive qualities required to maintain the reverse sequence. How can it be guaranteed that no citizen or group will acquire an unfair (in contemporary discourse, read "unequal") command over resources? Acknowledging that perfect equality of condition is unobtainable and may even be undesirable, attempting nevertheless to attain it justifies regulation of virtually every aspect of life that tends toward substantive inequality, i.e., most everything. So long as every deviation from equal conditions is regarded as unfair, undemocratic, and, therefore, illegitimate, governmental intervention in the interstices of social life is mandated. In so sweeping a conception of democracy, equality before the law, except for instantaneous votes at the moment of achieving equality of resources, is a fatal impediment.

A different view of democracy, not heard from much in recent times, is that people get together to find common grounds on which to secure the blessings of liberty. The initial sequence—the procedural rights they can agree on—matters mightily precisely because people do not agree on substantive ends. They expect to come in

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with different degrees of interest and information; they expect to be unequal in some respects because they want to be taken as they are; and they think that established positions should give way only slowly, since this resistance to change will dampen their proclivity to do whatever they decide to do. By foreclosing the end, or, rather, by making the end of equal condition the only legitimate beginning of political life, there is no room for a democracy of learning what to prefer. There can only be a democracy of enforcing prior preferences. And that, ironically, renders civil liberties useless, because there are no preferences to be changed. The reverse sequence and the original sequence are antithetic to each other; if you have one, despite what the song says, you can't have the other.

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The pseudo-science of "peace"

DONALD KAGAN

IN THE MIDDLE of October 1984, in the midst of the rush to adjourn and get home for the serious business of campaigning, the United States Congress considered a bill providing for the establishment of the "United States Institute for Peace." Though many were suspicious and critical of the idea, it was attached to a vastly complicated and crucial money bill. The issue being—or seeming to be—"peace," Congressmen voted for it as light-heartedly as they do for resolutions in favor of motherhood and apple pie; the White House raised no meaningful objection; and so the bill became law. This brought success to a movement that goes back as far as 1793, when a critic of the newly-adopted Constitution of the United States complained of the absence of a Department of Peace to offset the Department of War.

Between 1935 and the late 1960s at least 140 bills on the subject were introduced in Congress, without success. In recent years the problems inherent in the idea of a Department of Peace—what would it do, for instance—led to a shift in emphasis toward the idea of some kind of "Peace Academy." Bills to support such an establishment were proposed, and in 1977 a Commission to study the idea of a "National Academy of Peace and Conflict Resolution" was appointed. The Commission issued its report in 1981, recommending the estab-

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lishment of a "United States Academy of Peace" to promote research and training, to dispense information to the public, and to support research at other institutions.

The new Peace Institute will carry out these recommendations. Its board of directors will include the Secretaries of State and Defense, the Director of the Arms Control and Disarmament Agency, the president of the National Defense University (or their designates), and eleven others appointed by the President with the advice and consent of the Senate. They, in turn, will appoint the president of the Institute. The Peace Institute is empowered to operate on a remarkably broad front. It will make research grants to "scholars and leaders in peace". It will conduct its own research, "particularly of an interdisciplinary or multidisciplinary nature, into the causes of war . . . and the elements of peace among the nations . . . of the world, including peace theories, methods, techniques, programs, and systems." It will support "peace education" and research programs at the postgraduate level.

But its work will not be purely academic. It will offer training, symposia, and continuing education programs "for practitioners, policymakers, policy implementers, and citizens and noncitizens directed to developing their skills in international peace and conflict resolution." It will make grants and enter into contracts with educational institutions—defined very broadly to include not only schools at all levels but also "training, or research institutions (including the American Federation of Labor–the Congress of Industrial Organizations)"—for a variety of purposes, one of which is to "educate the Nation about and educate and train individuals in peace and conflict resolution theories, methods, techniques, programs, and systems." The annual funding provided in the bill, passed in the wee hours of the morning, is to be $16 million. Since funding of federal agencies tends to grow over time, this sum will no doubt seem modest after a few years. But the friends of the Peace Institute are quick to make the argument that a year's expenditure is less than the cost of x missiles or y bombers. The Commission's press release asserted that such an establishment as it recommended would not only "reduce the level and incidence of international violence," but could also "save the taxpayer billions of dollars each year in direct or indirect conflict-related costs." How could Congress resist such a bargain?

Bureaucracy, pacifism, scientizing

Still, the proposal has had its critics. They object to the creation of another bureaucratic agency that will give public funds for the

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kind of research already being done at many private institutions around the country (some 79, by the Commission's count). And administrators of these current competitors have suggested that a great part of the money used to establish the Institute will go toward feeding its bureaucracy, thus diverting badly needed money from support of programs already in place.

But there have been more serious concerns. Some fear that the Institute will become a center of pacifist propaganda, perhaps in light of the character of some of its proponents (whom the Heritage Foundation calls the "Jane Fondas of the Senate"). There are fears that such an agency will not be an even-handed, serious, and scholarly organization, but rather a center for evangelists of unilateral disarmament and utopianism in general. There seems to be good reason for concern. Richard A. Falk and Samuel S. Kim, the editors of *The War System: An Interdisciplinary Approach*, a recent popular anthology on war, identify an attitude toward war they call "pessimistic inevitability," saying, "In our times, the influence of this school lingers in the general endorsement of balance of power politics and its connected deterrent doctrine of *si vis pacem, para bellum* ('if you want peace, prepare for war'). The inevitability school is obviously incompatible with peace research."

By this bit of legerdemain, belief in deterrence is equated with believing in the inevitability of war and can be no part of "peace research." These authors are also concerned with "institutionalized violence . . . , the most pervasive form of violence deeply imbedded in the modern state system, in which privileged classes and groups commit indirect violence against societal underdogs through the operation of institutions and structures of society that legitimate and defend unequal distribution of societal wealth, income, and support." Thus the maintenance of public order, even in a free and democratic state, equals violence. One of the editors calls for a "value-oriented" policy science that will try to promote not only "negative peace" ("absence of violence") but also "positive peace" ("social justice"). The other editor rules out "laissez-faire and free market attitudes toward population policy, resource use, and environmental protection," advocating instead a form of socialism heavily dosed with anarchy. Both have been plowing this field for many years, and can be counted on to seek support from the new Peace Institute. And so its critics are probably right to fear the worst.

The main target of the critics, however, has properly been the remarkable simple-mindedness of the "Peace Institute" scheme. Its supporters seem to feel that if only we want peace, discover the

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appropriate techniques of negotiation, and apply them, we will avoid war. One sympathizer said that the Institute could help Americans to overcome their natural resistance "to settling disputes by means other than by force and violence." One of the friendly witnesses at the Commission's hearings pointed out that "mediation techniques commonly used to resolve labor-management disputes became the cornerstone strategy for the Camp David Accord between Israel and Egypt." Of course critics might point out that at Camp David, both parties badly wanted an agreement (something that is not always true in "conflict resolution"), and that the negotiations there were quite a lot like several concluded in the nineteenth century by great-power statesmen who knew little or nothing of labor-management negotiations. But such details and analogies can be very cumbersome to enthusiasts.

It is this kind of simple-mindedness that leads to such stateents, by the Commission and its friends, as: "There is now a science —tested and proved in actual practice—that can help make war obsolete." The Commission says that America, armed with such a science, is now ready to "wage peace." The claim, of course, is silly, but its Messianic tone is troubling. It recalls an approach to serious and largely intractable human problems common in our time. The idea seems to be to identify a problem, apply a military metaphor to the attempt to deal with it, establish a bureaucracy to solve it, spend ever-increasing amounts of public money, create new problems that no one ever imagined beforehand, and then wonder why things didn't work out.

The greatest flaw of all, however, in the idea of a Peace Institute has received little attention. In spite of a nod in the direction of historical and other studies in the humanities, the Commission and its supporters put their faith chiefly in the marvels already achieved by (and forthcoming from) work in the social sciences. The Institute's chief academic support comes from social scientists working in the field of "Peace Research," a field of study invented in the late 1950s, which came to prominence with the publication of such organs as the *Journal of Conflict Resolution* and the *Journal of Peace Research*. Using up-to-date techniques such as quantification and content analysis, its practitioners see themselves as analogous to physicists and chemists, seeking to establish laws of human behavior. As D. C. Pruitt and R. C. Snyder put it in *Theory and Research on the Causes of War*, previous work on the subject "lacked the degree of sophistication associated with the intellectual viewpoint of modern science." But by 1969, these thinkers were able to announce that

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"Theory and research methodology have become increasingly sophisticated, to the point where the minimum conditions for a science of the causes of war may be said to exist." The kind of work to be encouraged by the new Peace Institute will most likely be the product of these "scientizing" social scientists of "The Peace Research Movement."

From its beginnings social science has run the risk of seeking a simple-minded application of the methods of the physical sciences to the problems of human society, of moving too swiftly to generalization and then generalizing too broadly. There have been and are, of course, social scientists with better judgement and with more modest and reasonable goals. At their most extreme, however, social scientists have always promised to present us with general laws that can explain and predict human behavior. Even the more cautious among them promise to promote precision in our analysis of human actions, to provide us with new conceptual models and tools that will help us to a new, deeper, clearer, and truer understanding of our conduct.

My own perception of social-science work done in areas I have investigated—diplomacy, war, and international relations—is that social scientists have not delivered on their promises, and probably will not be able to. They have attacked the humanistic approach to the understanding of people in society as old fashioned, imprecise, subjective, and inconclusive, but they seem not to have produced any compelling results through their own devices. They have, however, helped to cause a crisis, and sometimes even a failure of nerve, among more tender-minded humanists, and they have spent much time and money in essentially fruitless pursuits. I propose to examine some of the thinking of social scientists on the subject of the origins of war, to show its character and the course it has taken.

War, natural and unnatural

Well before the invention of social science, of course, the question of the causes of war received considerable attention. Men have pondered the nature of war since antiquity, and for the most part, they have thought it a natural, if often reprehensible, activity. The persistence of wars in every age and in almost every society lends support to their view. Plato and Aristotle, as well as their enemies the Sophists, believed that men were naturally acquisitive and aggressive and that government and laws existed to curb those tendencies. At the beginning of modern times, Machiavelli held the same opinion, though he drew different conclusions. Hobbes, of course, be-

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lieved man to be a most dangerous animal, whose natural warlike proclivities needed to be curbed by absolute government.

The view that war is unnatural to man is, so far as I know, a modern idea. The early anthropologists and the Marxists rejected the doctrines of fatalism and inevitability and sought the causes of war in human circumstances, however generally stated. They saw the possibility of a change in the conditions of human society that could produce a change in man's warlike leanings.

The terrible experience of warfare in this century gave the question of the causes of war a new urgency. The invention and the meteoric rise to influence of the social sciences has intensified interest in that question and introduced new ways of looking at it. Psychologists, and particularly psychiatrists, have given some thought to the problem of the nature and origins of war. Freud, in a letter to Albert Einstein, made it clear that he considered war to be a social manifestation of that aggressive instinct in the individual that is part of the death urge, constantly in conflict with the erotic or vital urge in men. His hope for avoiding war was at best remote, for it lay in the possibility that men and their society would slowly evolve in a better direction, thus bringing about salutary psychological changes in mankind.

Erik Eriksen places great emphasis on war as an unfortunate alternative to a satisfactory solution of the crisis of identity. "To say it with one sentence: When the human being, because of accidental or developmental shifts, loses an essential wholeness, he restructures himself and the world by taking recourse to what we call 'totalism.'" In these circumstances war may seem a desirable activity.

The social psychologists have also given their attention to the problem of war. Their emphasis on learning combined with their faith in the perfectability of man has led many of them to conclude that, although war is a very real danger because of man's biological heritage of aggression, it can be avoided if the conditions of learning in society can be changed. When this has been accomplished, man's aggressive and destructive tendencies can be applied to peaceful uses. Cultural anthropologists have gone farther in the same direction, arguing that war, as opposed to individual pugnacity or aggression, is not a biological necessity, but, as Margaret Mead has called it, merely an invention.

I believe that these samples of social scientific opinion are typical of the genre, and all are equally unsatisfactory. It is not that the conclusions are necessarily wrong. Who can say that Eriksen is mistaken in believing that a failed identity crisis may lead nations to

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war? By no device can such a statement be shown to be false. Perhaps Freud and the many others who hold the same view are right in thinking that war is a biological part of the nature of man, perhaps the social psychologists and anthropologists are right to deny it —what does it matter? The unsatisfactory aspect of all these conclusions is that they are resoundingly irrelevant. We may agree that warfare is inherent in man, but we observe that he is sometimes at war and sometimes not: What we want to know, then, is how and why he comes to fight wars when he does and to avoid wars on other occasions. If we assume the opposite, that the tendency to war is culturally imposed, then we want to know precisely what is conducive to war in one culture and what deters it in another. Even more urgently, we want to know what it is in our culture that sometimes produces war and sometimes does not.

War and the unconscious

One can see some of the difficulties inherent in the "scientific" approach to the problem from a look at a highly esteemed 1938 essay by E.F.M. Durbin and John Bowlby, called "Personal Aggressiveness and War." Though it is now almost half a century old, it is regarded as a classic, was included in an influential anthology in the 1960s, and is seriously discussed in another anthology on war published in 1980. Its frustration-aggression hypothesis has had continued influence on writers about war since its first appearance. Its explicit use of psychology and psychoanalysis is less fashionable today, but its approach and assumptions are fundamentally the same as those of most social scientists, even those far from the field of formal psychology. The authors employ the perceptions of experimental psychology, psychoanalysis, and anthropology, carefully and systematically trying to explain why men go to war.

The authors' examination of the behavior of apes and children shows that fighting is largely the result of competition for the possession of desired objects, the fear caused by the intrusion of a stranger, and frustration, which leads to the desire for revenge. The intervention of authority often prevents the fulfillment of these desires —which adults also have—and produces frustration. This often leads to simple aggression, which causes a severe conflict for children: They must either restrain their aggression or risk punishment. The result is usually repression, which leads to the temporary abandonment of aggressive behavior. Repression, however, often produces transformed aggression which appears at another time, often intensified and aimed at an innocent victim.

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The conflict produces a condition the psychoanalysts call ambivalence. To this is added the problem of moral judgment, which soon appears, whatever its source. It leads to feelings of guilt, sometimes even to morbid anxiety. "It is to reduce anxiety and guilt to a minimum and to resolve the conflict of ambivalence that the major psychological mechanisms are developed." These are called displacement and projection. Displacement involves the shifting of aggressive behavior from its true object to a secondary one. It relieves the problem of ambivalence and conflict and is often a safer course of action.

Displacement is important because adult aggression is carried out in groups, since society prohibits most individual fighting. The power of groups to fight comes chiefly from "their power to attract to themselves the displaced hatred and destructiveness of their members. Displacement . . . is a direct channel of the ultimate causes of war." The second important mechanism, projection, consists of "imagining that other individuals are really like our own unrecognized and unaccepted selves. It is the projection of our own characters upon others." It allows us to avoid the burden of our own guilt, to make our own hatred seem a passion for righteousness and to fight wars as though they are crusades.

Finally, our authors summarize:

> This is our theory of international war. War occurs because fighting is a fundamental tendency in human beings—a form of behavior called forth by certain simple situations in animals, children and human groups, and whole nations. It is a fundamentally pluralistic theory of international war. If the theory is true, then it follows that nations can fight only because they are able to release the explosive stores of transformed aggression, but they do fight for any large number of reasons . . . . There is no single all embracing cause—no single villain of the piece, no institution nor idea that is wholly to blame.

This essay is typical in its rejection of the particular in favor of the general, in its search for unconscious and uncontrolled motives to the neglect of the conscious and purposeful motives of people, in its rejection of the willed and rational in favor of the non-rational or irrational. Its authors make no claim to originality, and allow that their theory may seem to be nothing more than enlightened common sense. But in fact it is an attack on common sense. The reader may have thought wars were the results of ignorance, bad character, or evil intentions—I mean fear, suspicion, greed, jealousy, and hatred—but they are really the results of inevitable ambivalence leading to morbid anxiety which is transformed into displaced or projected aggression, over all of which the individual has no con-

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trol. And if this seems arcane, the reader can fall back on the real teaching of this essay—that wars are caused by various things.

Like the other scientizing students of society, the authors leave the crucial questions not only unanswered but unasked. Presumably, people are always repressing, displacing, and projecting their aggressive feelings. Why do these processes lead to war at some times and not at others? And if we leave cloudcuckooland for a moment, we soon recognize that the decisions that produce wars are not made by great masses of psychologically disturbed people but by a small number of leaders charged with the conduct of foreign affairs. A proper theory ought to consider what moves such people to bring on war. If they are moved by forces such as those I have discussed, it should be possible to show that they are, and to show how they are. If they merely respond to popular feeling, we should be told precisely how, when, and why they do. Statesmen who make decisions usually offer reasoned explanations for their actions. If the stated reasons are false, as they often are, should we not seek unstated reasons before abandoning reason altogether?

"942 linear feet of speculation"

The "Peace Research Movement" has been staffed chiefly by political scientists, and their work has usually been less abstract and remote from historical specificity and reality. They are the likeliest to receive support from the Peace Institute.

In 1971 the National Science Foundation awarded a grant of $149,000 to J. David Singer, one of the "Peace Research Movement"'s founding fathers, to help him develop an "applied science of war prevention." The first job was to identify 93 wars that had been fought between 1816 and 1965. To qualify a war had to be international and boast at least 1,000 battle fatalities. The next step was to chart the won-lost statistics by nation. Britain led the league with a 16-2 record, and Turkey was in the cellar with a mark of 5-11. The purpose was to establish a statistical basis for forming and testing theories on the causes of war.

Professor Singer complained to a *New York Times* reporter: "Here I am in my office surrounded by 942 linear feet of delightful and plausible speculation on the causes and consequences of war —and there's not a damn shred of reproducible evidence." Reproducible evidence is the goal. Singer, therefore, tried to reduce all the possible variables to numbers so they could be analyzed by computer. In this way, a value for "magnitude" was assigned on the basis of number of nations involved and length of the war, for "severity"

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on the basis of battle deaths, etc. The Korean War, for example, involved 16 nations, lasted 37 months, and resulted in 2 million military deaths. With 3,872 battle deaths per month, it was less intense than World War II (with 17,804) but more intense than the Spanish-American War (with 1,250). These and similar data, when they are coded and assimilated by the machines, will make it possible for the computer to scan the figures and detect behavioral patterns associated with war. The scientists involved point out "that one might ask, by example, if a sequence of five threats in a row followed by less than three capitulations is usually followed by war or peace." One can imagine the president and his advisers considering their policy in the light of a fifth consecutive threat, having made only two previous capitulations. The precision of the new decision-making science should prove invaluable.

Unfortunately, such advances have not yet been achieved. Work has gone forward on other fronts, however. The widely used *Theory and Research on the Causes of War* announces that it "documents a revolution in our thinking: war and peace have, in the last decade, become respectable research topics for a significant number of social and behavioral scientists of varying disciplinary backgrounds who look at them as empirical phenomena to be explained. For the first time in history we can speak of a 'Peace Research Movement,' characterized by rigorous empirical inquiry into the nature and origins of violence in international conflict."

For example, there is an article in this collection called "The Management of International Crisis: Affect and Action in American-Soviet Relations," by Ole R. Holsti, Richard A. Brody, and Robert C. North. It applies a technique called "content analysis" to a comparison between the Cuban missile crisis and the outbreak of World War I. The study distinguishes three phases of the missile crisis, two of which are studied: October 22-25, 1962, "the period of greatest danger of escalation," and October 26-31, "the bargaining period."

The authors use a conceptual framework in the form of a "two-step mediated stimulus-response model (S-r : s-R,)" in which the acts of one nation are considered as "inputs" to other nations. Since actions may be perceived and understood differently by different people, what counts is not what happens but what people think is happening. This may not seem like a new notion, but the authors of this article have taken a step forward by quantifying the data. Their sources are 15 American and ten Russian documents, publicly available statements by the leading decision-makers on each side; these have been analyzed by the

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> General Inquirer system of automated content analysis via the IBM 7090 computer. This analysis provided day-by-day ratings of each party's perceptions and intentions [how these were discovered is not revealed] for six variables: positive affect (POS), negative affect (NEG), strength (STR), weakness (WK), activity (ATV), and passivity (PSV). In addition, the actions of each party were scaled on a dimension of degree of violence or potential violence.

These values were assigned by three people supplied with cards describing the several actions. Each judge assigned a level of violence for each action. They agreed fairly well.

The resulting charts produced these revelations: When the Russians talked or acted tough the Americans thought that they were being tough. On the other hand, when the Americans talked or acted tough the Russians believed they were being tough. On the 25th and 26th of October, when Khrushchev decided to back off, the tone of the messages and actions changed. Both sides began to act and talk in a more friendly manner. The charts show clearly that both sides perceived this change of tone and mood. There was no failure of communication. As a result, war was avoided.

Our scientists, however, do not jump so quickly to conclusions. They admit that "by themselves these findings are hardly conclusive," but when compared with data from the outbreak of World War I they take on greater meaning. In that crisis Germany and Austria regularly over-perceived the hostility of the words and deeds of the Entente powers who, on the contrary, regularly underperceived the menace in the words and deeds of the Central powers. The result in that case, of course, was war. In the words of our scientists, "the only significant difference between the two alliances was in the S-r link." The authors conclude that the value of their method is demonstrated: "A substantial difference between the 1914 and 1962 crisis was the relative clarity with which tension-reducing moves were seen by the participants in the latter period: in the 1914 crisis this clarity was eroded by the tendency to imbue the potentially tension-reducing actions of the other alliance with hostile intent." To be sure, they conclude that there is much work still to be done—other factors to be tested—"but even those two cases may have furthered our understanding of the role of affect and action in the management of international crisis."

I don't think so. I agree that perceptions were different in the two cases, but there is an excellent and simple reason for the difference, totally ignored by our scientists. In 1962 neither the Soviet Union nor the United States wanted to fight any kind of war; in 1914 Germany and Austria did want to fight a local war in the Bal-

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kans, and were willing to fight a continental war if necessary. An elementary acquaintance with human behavior reveals that when people don't want to fight they tend to interpret the gestures of others generously, while people who do want to fight tend to see offenses where none are intended. The whole questions of *perceptions* is trivial compared to the question of *intentions*. But *intentions cannot be derived from the quantifiable data used and preferred by our scientists*. An investigation of intentions demands the careful scrutiny and informed evaluation of thousands of documents by people who have learned to understand the period under study, its people, habits, and conventions. That, however, would be historical research of the old-fashioned kind practiced by students of the humanities—and would not be scientific.

History and the Peloponnesian War

I prefer the historical and humanistic method. To illustrate it I propose to examine the origins of the Peloponnesian War, in part because it is the one I know best, but also because it offers special advantages. In ancient Greece, as in the modern world, statesmen played an important role in the management of foreign policy, but in Sparta and Athens every major decision had to be voted by an assembly of the citizen body. There, if anywhere, the workings of group psychology should have been important, yet policies were originated and shaped by leaders, so an examination of the ancient experience should be illuminating to social scientists of every variety.

Between 461 and 445 B.C. Athens and Sparta fought a war that ended indecisively. Neither side was victorious, and each accepted the other's supremacy in its own sphere of influence. We might call the result "peaceful coexistence." In 440, Samos, one of the two autonomous allies of Athens and the possessor of a powerful fleet, revolted from the Athenian Empire. All that was needed to launch a new war was the cooperation of Sparta and its Peloponnesian League in the rebellion. At a meeting of that league to consider supporting Samos, the clinching argument against intervention was made by Corinth, the state that had brought on the first Peloponnesian War in 461 and would play the role of incendiary in starting the second. But in 440 she supported peace because she was satisfied with the modus vivendi that both sides had approved and were faithfully carrying out. So, between 440 and 436 the chances for peace seemed excellent.

In 436, however, a civil war broke out in Epidamnus, a city allied to neither coalition and remote from both in tradition and

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geography. The besieged faction that had governed the city sent for help to their mother-city, Corcyra. The Corcyreans belonged to neither great coalition and traditionally maintained a policy of splendid isolation. They refused to assist their Epidamnian colonists. At this point the Epidamnians applied for help to Corinth, with which they had old but informal ties. The Corinthians accepted and sent military help to Epidamnus, even though they expected that Corcyra would be angered and perhaps resort to war. These expectations were correct, for Corinth and Corcyra were old enemies. Although the Corcyreans were unwilling to intervene at Epidamnus themselves, they would not permit Corinth to do so for fear that the Corinthians would establish their power and influence in the neighborhood of Corcyra. The Corcyreans soon perceived that they could not compete with the power of Corinth (supported by the Peloponnesian League) and offered to submit the quarrel to arbitration. Corinth refused to negotiate, and Corcyra went to Athens to seek an offensive and defensive alliance. The Corcyreans pointed out that if their fleet were combined with the Athenian fleet, Athens would be absolutely secure in case of war. If, on the other hand, their fleet were captured by the Peloponnesians, it would pose the gravest threat to Athenian safety. Since war between Athens and Sparta was in any case inevitable, they argued, it would be foolhardy for Athens to reject the alliance.

The Corinthians came to Athens to argue against the alliance. They reminded the Athenians of past favors, not least among them Corinth's opposition to Peloponnesian intervention in the Athenian war against Samos in 440. They argued that a principle had been established that amounted to a division of the Greek world into two discrete spheres of influence, the Aegean Sea and its borders to be the sphere of Athens and the mainland and the western seas to be under Peloponnesian control. If the Athenians respected that agreement there need be no war.

The Athenians agreed to a defensive treaty with Corcyra only, but in 433 Corcyra met Corinth in a great naval battle—in which the Athenians became involved with the Corcyreans. Over the next winter Athens took steps to guard its security. One of the few Peloponnesian peoples to fight alongside Corinth at the naval battle the previous summer were the Megarians, and to deter future Peloponnesian involvement, the Athenians, under the leadership of Pericles, enacted an embargo against Megarian trade in the Athenian sphere of influence. Its enforcement would be a serious blow to the Megarians. At about the same time the Athenians took steps to deter an expected

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defection from their empire: Potidea was a state in the Athenian Empire that had been founded by Corinth centuries before, and it continued to maintain close ties with the Corinthians; to prevent a possible rebellion there, the Athenians ordered Potidea to destroy its defensive walls and to break off relations with Corinth.

In the spring, Corinth, strongly supported by Megara and some other states, asked for a meeting of the Peloponnesian League to convince the Spartans to go to war against Athens. They argued that Athens had shown herself to be an aggressive and dangerous state, one of unlimited ambitions, and a threat to the security and freedom of all the Greeks. After considerable debate, the Spartans determined by vote that the Athenians had broken the treaty of 445. Some months of negotiation followed, but once the Spartans had made their decision, and once the Athenians decided to hold to their line—they would negotiate all grievances but would not submit to Spartan demands—the war was unavoidable.

Athens and Sparta at five key moments

That is a brief account of the events leading to the war. Now let me fix on five crucial decisions that helped bring it on and ask why they were made. Why did Corinth agree to help the besieged faction in Epidamnus even though they knew their action would probably mean war with Corcyra? We may dismiss considerations of economic advantage or of any threat to the security and prestige of Corinth. The Corinthians were the aggressors, and Thucydides tells us that they risked war "through hatred of the Corcyreans, because they, though Corinthian colonists, neglected the mother-city. For neither at the common festivals would they concede the customary privileges to Corinthians nor would they begin with a representative of Corinth the initial rites at sacrifices, as the rest of the colonies did, but they treated them with contempt." Their actions made little more sense to their contemporaries than they do to us, for they did not respond to economic, political, diplomatic, or strategic necessities. As modern nations and states throughout the ages have sometimes done, they acted from emotion. The Corinthians were moved by less than fully rational motives—by hatred, jealousy, and a desire for revenge. Their passions made it hard for them to appreciate the realities of the situation. They did not fear an Athenian alliance with Corcyra, relying on the formula of 440 to keep Athens neutral, but they ignored the special significance of the Corcyrean navy. Early in the confrontation between Corinth and Corcyra, the Spartans, who could look unemotionally at a situation in which they had

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no direct interest, could see that Athens might be unwilling to allow a major shift in the balance of power, so they urged Corinth to submit to arbitration. The Corinthians, however, allowed their passions to cloud their judgment and believed what they wanted to believe.

The second important decision was Athens's acceptance of the Corcyrean alliance, in however limited a form. Thucydides gives us a clear and entirely convincing explanation: They voted for the alliance because they believed that war was very likely. They were unwilling to run the risk of letting the Corcyrean fleet fall into enemy hands. The decision was based on fear but was entirely rational. Athens could easily be defeated if she lost command of the sea, and Pericles and the Athenians were altogether reasonable in refusing to take the chance.

Pericles and the Athenians also made the next important decision: enacting the embargo against the Megarians and delivering the ultimatum to Potidea. They still hoped either to deter war or to keep it local and limited. They regarded their own actions as moderate and justified, and expected the Spartans to see them in the same way. To the Spartans, however, the decree against Megara was a challenge to their capacity to protect their allies. And from a fearful and unfriendly perspective, the treatment of Potidea could be seen as a brutal and arrogant act against a small and helpless state; the Corinthians, Megarians, and others could use these actions to support their claims that Athens was an ambitious and dangerous aggressor. The cautious and conservative men who normally dominated Sparta knew better, but the Athenian actions and the propaganda to which they lent support caused a surge of emotion and a change of opinion that brought the war party to power at the crucial moment. Pericles seems simply to have made a mistake in his assessment of Spartan politics.

The Spartans were next to make a vital decision: the vote determining that Athens had broken the treaty of 445. It was clear to the Spartans after the war had broken out, it was clear to Thucydides, and it is clear to us today that the Athenians had not broken the treaty. The Spartans voted for war out of fear of Athenian aggression. That fear was unfounded, as the Spartans would have learned had they either waited or accepted the repeated Athenian offer to arbitrate all grievances as required by the treaty of 445. The war party took advantage of a temporary surge of emotion—fear and anger—to make the decision for war. They did so in part because they truly feared the Athenians, but in part, also, out of jealousy

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and hatred for an alien state whose recent rise to equality on the international scene they were unwilling to accept. Their behavior cannot be described as fully rational.

The Athenians made the last major decision. The Spartans, still sending embassies in the last winter before the war, said that it could still be avoided if only the Athenians would withdraw the Megarian Decree. Pericles refused and persuaded the Athenians to stand by the decision on the following grounds: "If you yield this point to them you will immediately be ordered to yield another and greater one, as having conceded the first point through fear; whereas by a downright refusal you will give them clearly to understand that they must be more disposed to deal with you on terms of equality." The following statement conveys his main point: if you decide to go to war, "do so with the determination not to yield on any pretext, great or small, and not to hold our possessions in fear. For it means enslavement just the same when either the greatest or least claim is imposed by equals upon their neighbors, not by an appeal to justice but by dictation."

So one part of Pericles's decision rested on what seem to be reasonable grounds: that a policy of peaceful coexistence between great powers cannot permit one side to get its way by force or the threat of force. To yield is to expose oneself to future blackmail and the threat of a future war, probably on less favorable terms. But on the other hand, Pericles failed to reckon with Sparta's need to protect its allies in order to maintain its leadership of the Peloponnesian League, on which its own security depended.

Morality and common sense

And so it might appear that we have come full circle. Like social scientists, those who employ the humanistic and historical method find the causes of war to be many and various. But there the resemblance stops. The historian's opinions are based on the study and analysis of evidence that is directly pertinent and obviously relevant, in quantity as great as can be found. In my analysis above, I have, moreover, considered both rational and irrational sources for the actions described. Since most of us have felt greed, fear, jealousy, and hatred, we have a direct and full understanding of what they mean. Few of us have been aware of feeling ambivalence, displacement, animism, or projection, and so we must be a bit at a loss when asked to understand events in those terms.

There is another reason to prefer the old terms and avoid the language of social science. If we say that a man or a people brought

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on a war because of greed, jealousy, or a desire for revenge, we naturally hold him or them responsible for their actions and, therefore, morally culpable. We are led to judge actions as good or bad, as most people have always done (and as I think they should). Even if it turns out that conflicting values were at work in producing final decisions—that the statesman was of two minds—we may still hold him responsible for choosing wrongly. But what shall we say of the man who is said to be suffering from ambivalence? The image we get is of two forces fighting within an individual, beyond his conscious control and apart from his will. Such a person can be pitied but not judged, certainly not blamed. The psychologists and anthropologists tend to speak not of *motives*, which imply conscious volition, but of *motivations*, which imply, once again, uncontrolled forces that operate independently of their victim. But this flies in the face of common sense and experience. Every day we feel and act as though we can make conscious choices and can select from a variety of motives. Nothing yet discovered by social science should convince us we are wrong. Similarly, political scientists stress errors of perception and automatic responses to crises, instead of deliberate choices arising out of real conflicts made by statesman in response to typically human desires. But their work is no more persuasive in this respect.

I have mentioned advantages of the method of humanistic scholarship uncorrupted by creeping scientism. It also has shortcomings. It lacks absolute precision and certainty. It suggests understandings and explanations but cannot prove they are right. It leaves important questions unanswered. It is one thing to point out that at crucial moments the Corinthians, the Athenians, and the Spartans miscalculated, yielded to passion, to wishful thinking, or to fatalism, but something quite different to explain why. This method cannot do so; there is reason to doubt that any method can. But we at least have the advantage of knowing what we do not know.

The limits of knowing peace

It is typical of the involvement of political bureaucracies in the world of ideas that the supporters of the Peace Institute are proclaiming the arrival of the social scientific millennium in "Peace Studies" just as thoughtful practitioners in this field are beginning to have their doubts. In her 1980 presidential address to the International Studies Association, published as "Three Puzzles in Search of a Researcher" in *International Studies Quarterly*, Dina A. Zinnes remarked that although everyone in her field is for "more theory,"

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they find it hard to know how to get it. To solve the problem she examined three questions in her field: "Do Nations Interact?"; "Why are Some Nations War Prone?"; and, "Is Polarization a Precondition for War?"

She carefully examined the work done on these subjects, empirical and theoretical, and found that on all three topics different studies arrived at irreconcilably different conclusions. On the last question, for instance, she found that "there are obvious conflicts among the empirical studies." The solution she suggests is to give up general questions and to try to create and solve "puzzles." The key difference is the place of knowledge. Even the totally ignorant can ask a question. Only the informed can notice a puzzle. "To be truly puzzled we must already know something." Then, when different things we know contradict each other or behave in surprising ways, we are puzzled. Perhaps by creating and solving such puzzles we may arrive at the capacity to pose meaningful questions that may lead to useful answers. But even then, Zinnes concedes, "There is no guarantee that puzzlement will lead us to theory."

In 1983 Benjamin A. Most and Harvey Starr cast doubt on such hopes, even for the future. In a *Journal of Conflict Resolution* article, "Conceptualizing War," they took up the question of whether some nations are more prone to war than others. They concluded:

> While scholars are trained to search for generalizable patterns . . . , *the existence of such patterns seems unlikely* . . . . It seems probable that *different relationships may hold under different conditions*. Scholars who fail to recognize this possibility . . . are likely to have considerable difficulty in understanding and explaining the causes of war [emphasis added].

All three scholars seem to be recognizing that in the field of international relations (I would say in all fields dealing with human society) the particular is more important than the general. What is needed is detailed, accurate, and deeply understood knowledge of the particular relevant experiences, as many as may shed light on the problem —in short, we need the careful study of history. As George Will put it: "All that . . . a [peace] academy could do is what every liberal-arts school does: teach history. Taught properly, history refutes the idea that there is some social scientific key to peace."

Neither Zinnes nor Most and Starr draw that conclusion, in spite of their discomfort with the state of their subject. The chances are great that their colleagues will continue to seek the philosopher's stone, in the form of general theories that will be scientifically rigorous and unerringly capable of predicting and preventing wars. But now they will have millions of dollars of public money to play

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with. The American people, like medieval kings, will be allowed to support their own alchemists.

The danger is that their efforts will erode the forces of common sense, experience, and history that argue for a strong defense as a deterrent to war. The chief congressional champions of the Peace Institute have consistently opposed major defense programs, and they have every reason to believe that much of the research the academy will support will promote the idea that weapons are unnecessary. Since we are to have the Peace Institute, care must be taken to stock it with at least a scattering of people not seduced by academic hocus-pocus, scholars with a knowledge of the human experience over time, the humility to comprehend its significance for us, and the wisdom to know the limits of our capacities.

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The Grace Commission: How much waste in government?

STEVEN KELMAN

THERE ARE FEW BELIEFS more deeply embedded in the popular consciousness than that government wastes a lot of money. Seymour Martin Lipset and William Schneider, in their book *The Confidence Gap*, report that in surveys asking people how much of each tax dollar they think the federal government wastes, the median response is 48¢. Lipset and Schneider argue that the paradox of simultaneous public support for tax cuts, and for maintaining or increasing spending in all major categories of government programs, is explained by the perception that waste in government is so rampant that there can be big spending reductions without service rollbacks.

Last January the President's Private Sector Survey on Cost Control (generally known as the "Grace Commission" after its head, J. Peter Grace, Chief Executive Officer of W.R. Grace & Co.), delivered its final reports. The Grace Commission recruited over 2,000 corporate executives to scrutinize the government. Announcing the report, Peter Grace told the press that President Reagan had asked him to look at government agencies as if considering a merger or takeover. "The President's private sector survey would not acquire the government" was the conclusion, he stated. No wonder. He found that, over a three-year period, a total of $424 *billion* in sav-

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ings could be obtained from controlling waste, "without weakening America's needed defense build-up and without in any way harming necessary social welfare programs." These were stupendous numbers, almost enough to eliminate federal deficits.

But they were not uncontroversial. With the perspective of someone interested in how government can be managed better, I spent time examining some specific allegations of waste the Grace Commission made in areas where, first, there is general agreement—public and governmental—that the activity being undertaken is worthwhile, and second, there are examples of the private sector producing the same output, so that the relative costs to government and to the private sector can be compared. The Grace Commission issued 48 reports and made a now-notorious 2,478 recommendations, so it was obviously impossible to examine any significant percentage. But in the press packet accompanying the Grace Commission report, there was a chart entitled "Ten Random Examples of Bureaucratic Absurdity" (which was picked up in the *New York Times* story on the Commission), and I examined those ten.[1] Also, I examined recommendations the Commission made involving the General Services Administration (GSA) and the Veterans Administration (VA), because the responsibilities of both agencies include tasks very similar to ones private firms undertake.

The case of the $91 screw

(1) "*The Pentagon has been buying screws, available in any hardware store for 3 cents, for $91 each.*"

There have been many widely publicized examples of the apparently outrageous prices paid for spare parts for weapons—$110 for a 4¢ diode, $9,609 for a 12¢ Allen wrench, and $1,118 for a plastic cap for a navigator's seat.

One has reason to doubt these stories, even before further investigation, on strictly logical grounds. To suggest that defense contractors could routinely charge the government $110 for something they got for a few pennies is to suggest that the defense contracting business is the easiest avenue to unearned fortune since the invention of plunder. In fact, it turns out that the Defense Department has not negligently allowed itself to be hoodwinked. Most of these

[1] Of these, four proved not to be "bureaucratic absurdity" after all, but rather policies enacted by Congress. So only six cases were investigated. In addition, I examined the issue of Defense Department spare parts prices (which appeared in the press packet under another listing) because the issue had received so much media attention and because it had the horror-story sound of the other examples of "bureaucratic absurdity."

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cases have a common explanation, which involves an accounting quirk in pricing material purchased from contractors.

Any time anybody buys something, the price includes not only the direct cost of the materials, machines, and labor to produce it, but also a share of the company's overhead expenses—ranging from running the legal department to renting corporate headquarters. Defense Department acquisition rules prescribe that a defense contractor's overhead expenses be allocated to each shipment at some fixed proportion of the value of the procurement. Thus, if the direct cost of a weapon is $5 million, a company might be authorized to tack on, illustratively, 20 percent or $1 million, for overhead expenses. The same percentage may also be added to the direct costs of other items procured, such as spare parts. Thus $1 million would be added to a spare parts order for $5 million, just as it would be to a fighter plane order.

The Pentagon orders many different spare parts at one time. Often in the past, contractors have, simply as a matter of accounting convenience, allocated the overhead to the individual parts on an "item" basis rather than a "value" basis. Say that the $20 million order is for 10,000 parts, some of which have a direct cost of $25,000 each and others of 4¢ each. Instead of apportioning the $1 million total overhead such that the $25,000 part gets a lot and the 4¢ part a little, the computer printout will allocate $100 to each part. This produces a charge to the government of $25,100 for the expensive part and $100.04 for the cheap one.

Although this produces horror stories, nothing horrible has occurred. The total overhead represents real resources legitimately charged to the government. If the $100 doesn't get allocated to the 4¢ diode, the diode no longer appears to be so outrageously expensive. But the $100 doesn't disappear, nor should it. The overhead is just allocated elsewhere.

There is one mildly distressing aspect of this practice. The spreading of overhead costs over a contractor's entire production appears to reduce the up-front costs of new weapons systems, since research and development for the weapon is charged to spare parts as well. This, in turn, makes new weapons systems appear less expensive than they really are, and distorts political discussions of a system's costs and benefits. But that has nothing to do with "not minding the store."

Other horror stories have a different explanation. Many parts the Defense Department procures are "common use items," the same as commercially produced parts that might be used in a car as well as a tank. Other items need to be custom designed, which often pro-

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duces an extremely high price per unit, because, unlike Chevrolets, much military equipment is produced in very small quantities and thus requires only a few of the same spare parts. The initial cost to design the part, and make the machine die or molding to produce it, must then be spread out over only a few units. (If it costs $3,000 to design and tool up a plastic cap, that will add only 1¢ to the cost of the cap if 300,000 are produced, but $1,000 if three are produced.)

The economics of tooling-up do suggest that common-use parts be used when possible, and the Defense Department does make efforts to get common-use items. Spare parts are frequently procured on a sole-source basis from the contractors for the original weapon. When the contractor submits designs for spare parts, he must designate those which are common-use. This list is reviewed by a Defense Department contracting officer, who makes suggestions for expanding common-use procurement when appropriate. After the contractor proposes prices, the contracting officer requests an independent evaluation of the offer by Defense Department value engineers, who may question whether a newly designated part is sufficiently different from common-use items to justify special tooling-up. But special design *is* sometimes necessary.

Contractors have something of an incentive to propose custom-designed parts, since a contractor is allowed to take a standard percentage profit, which in dollar terms is of course far greater for a $1,000 item than a $1 item. Cheating is presumably discouraged by the negative impact repeated discovery would have on the contractor's relations with the Defense Department. But the Department has an enormous review task—there are about 300,000 parts in an airplane—and sometimes an item that should have been classified as common-use ends up getting designed to order. This is what happened in the case of the $1,118 plastic cap. In the widely publicized case of the $9,609 Allen wrench, however, the system did work. General Dynamics proposed a custom-designed wrench, but the Pentagon's value review engineer found that the function could be performed equally well by an ordinary wrench. The Defense Department never ordered the custom-designed version, and is now increasing its scrutiny for common-use items. The additional scrutiny may cost more than it saves, but the issue to the Defense Department at this point is the credibility of the defense buildup.

The outrageous case of building management

(2) "*In comparison to a private sector company, managing comparable building space, the General Services Administration employs*

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17 times as many people and spends almost 14 times as much on total management costs."

This contention is so wildly inaccurate that it is hard to know where to begin. The best place to start is with two whopping errors in the numbers the Grace Commission provided on the private sector firm being compared with GSA. The chart the Commission provided stated that the property management division of a large life insurance firm was managing 10,000 buildings, "comparable building space" to GSA. In fact, no insurance company has a portfolio anywhere near that large. The correct number for the insurance company is not 10,000 buildings, but *1,000*, which is not comparable to GSA at all. Furthermore, the Grace Commission states that the insurance company employs a total of 300 professionals, 100 in central administration, and 200 under contract. It turns out, however, that the company in question does not employ 200 *individuals* under contract, but rather hires 200 property management *firms* actually to manage its buildings. Each of these firms in turn has many professionals working for it.

The figure the Commission chart provided for GSA professionals —5,000—is also exaggerated. About one-third of these are clerical and other non-professional employees (the Grace Commission simply looked at total white-collar employment at the Public Buildings Service). And about 800 of this number manage GSA design and construction, overseeing the contract process for construction of new buildings as well as repairs and alterations of existing buildings; the people who do this for the insurance company work in a different division, and thus aren't included in the employment figures the Grace Commission provided. So the number of professionals working on building management at GSA is really around 2,700, rather than 5,000.

Although all this indicates that the Grace Commission is monumentally mistaken, a precise comparison is difficult to make. One would need to know how many professionals the building management contractors employ, and the insurance company itself doesn't know that. Beyond that, the nature of the GSA portfolio and the insurance company's portfolio is different. Over two-thirds of the GSA buildings are leased space rather than owned space; this requires people to work on initial lease bids and on lease renewals (neither of which applies to the insurance company), but does not require government-provided building management services. Over 1,000 of the GSA buildings are (owned or leased) local social security offices, which are considerably smaller than the properties an

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insurance company owns. GSA officials would themselves concede that they probably have a larger staff for comparable functions than a private sector counterpart, because GSA requires more levels of review on contracting and leasing decisions to assure due process and to minimize corruption. But the difference is nothing like 17 to 1.

The $61,250 nursing home bed

(3) "*The VA spends $61,250 per bed to construct nursing homes —almost four times the $16,000 per bed cost of a major private sector nursing home operator.*"

The Grace Commission averaged the cost of six VA nursing homes, and the average was raised dramatically by the reported $113,500 per-bed cost of construction of a home in Martinsburg, West Virginia. This nursing home was being built simultaneously with a VA hospital adjacent to it, and the cost the Grace Commission reported included construction costs for a domiciliary that was part of the whole medical center, as well as site preparation and utilities for the entire complex. The actual cost for the nursing home at that site was $29,000 per bed, bringing the average cost per bed for the six facilities down from $61,000 to $47,000. Furthermore, the cost of three of the VA homes was significantly higher than usual because of unfavorable site conditions (such as confined space for construction, thus requiring off-site warehousing of building materials). Site conditions were unfavorable because the nursing homes were being built next to already-existing VA hospitals, pursuant to VA policy. The average cost of the remaining three homes, built under normal site conditions, was $39,000 a bed. So while the Commission exaggerates, there remains a substantial difference compared with the private sector, even if one considers only the homes constructed on normal site conditions.

Why these differences? Whatever the answer, one can be relatively confident that it is not the result of lazy government construction workers or bloated construction material prices paid by government. In fact, the VA does not construct nursing homes itself. It takes its nursing home specifications and puts them out to bid by building contractors. The low bid wins.

The truth is that what the VA calls a nursing home is in many ways of much higher quality than what private-sector chains produce. These quality differences increase the cost of a VA nursing home relative to a private one.

The most obvious differences involve the physical designs. VA facilities have been top-of-the-line. Homes have routinely included

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balconies in each room, occupational therapy areas, quiet rooms, extensive recreation space, and on-premises artwork. The VA policy of building homes contiguous to VA hospitals rather than freestanding, as the private company Beverly does, is also quality-driven; it provides nursing home residents quick access to hospital services and allows more rapid treatment of medical emergencies. That policy drives up costs in a number of ways, however. The VA got into the nursing home business relatively recently, and most homes are built on existing hospital sites. Often, however, these sites are too small to be ideal for new construction. That can raise costs by requiring construction in cramped or otherwise difficult situations. And frequently there is not enough land to build single-story homes, which are marginally cheaper to construct than the two-story homes the VA often must build. Is it worthwhile to produce this level of quality? That is a matter of debate. But it is not an issue of "waste," as the term is typically used.

The cost of constructing VA nursing homes *can* be reduced by decreasing quality. In 1981 the VA established a task force on nursing home construction cost reduction, after private nursing home chains had called cost differences to the attention of congressional oversight committees. The task force proposed a number of design changes that will reduce the cost of new VA nursing homes by about $12,000 per bed. They include eliminating balconies, making ceilings eight rather than nine feet high, reducing recreation room and dining room space by 35 percent, and reducing landscaping by half.

Another part of higher VA construction costs stems from the special requirements of government procurement. The most obvious are ones such as Davis-Bacon, and the preference given to American-made products and to minority and small-business enterprises. When the government builds a nursing home, it has decided not just to build a home but also to aid small business and American-made products. Again, this is not "waste," but rather government policy.

The entire mode of procurement in government is a less obvious, but very important, source of additional costs. Private sector nursing home chains generally establish ongoing relationships with construction firms in an area (often two firms, each to serve as a competitive check on the other), to whom they turn again and again. This allows them to avoid the costs of gearing up for new bidding procedures for each job. By contracting for several jobs at the same time, it allows the general contractor to obtain lower prices from subcontractors and suppliers, who give quantity discounts for the larger volume of work. It allows the contractors to become familiar

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with the details of how the firm wants the home built and to look for ways to build more economically, since investments in such efforts can be capitalized over a number of projects. The VA, by contrast, must gear up for a *de novo* bidding procedure, open to all, for each construction contract, with detailed functional specifications (rather than brand-specific ones) so that nobody is excluded from bidding. There are many layers of review within the VA to ensure that specifications inhibit no one, and to clear any deviations by the procurement or project staff from the rule that the lowest bid must be accepted. These procurement methods entail extensive additional costs, both because any individual act of procurement is more complicated (developing functional specifications, layers of review) and personnel-intensive, and because there are far more separate procurement decisions to be made (the *de novo* bidding process). Although the monetary costs of these procedures outweigh their monetary benefits (or else private firms would follow similar procedures) none of them, again, constitutes a clear example of waste. At worst, they reflect mistaken policies. They produce outputs with "quality" features not found in private home construction such as equal opportunity for all businesses to compete and a minimization of kickbacks.

Where does all this leave the VA/private sector comparison? I start with a $39,000 per bed average figure for the nursing homes built on normal site conditions, and I subtract $6,000 per bed in savings from the cost-control task force.[2] This brings the VA cost down to $33,000 a bed, compared with $16,000 in the private sector: about twice as much, rather than four times as much. The costs of Davis-Bacon and various statutory procurement preferences, of complex procurement procedures that must be repeated each time a home is built, of any remaining quality difference compared with private sector homes, and of any extra costs from two-story construction, reduce the differences further. Since no study exists of the accumulated effect of those factors, it is impossible to say how much of the VA/private sector difference that does remain is simple waste. My suspicion is that something does remain, but that the differences are not dramatic.

[2] I subtract $6,000 rather than the estimated $12,000 in savings because some of the changes the VA is making bring VA nursing homes below Beverly's standards—for example, the ceilings in VA homes will now be lower than those in Beverly homes. Lacking time, or expertise in architecture, to allow an exact estimate of the cost-reduction steps that bring the VA homes to the *same* level as Beverly's, I have taken a figure of one-half, the arbitrary nature of which the reader should be aware of.

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The freight-charges boondoggle

(4) "*The government spends almost $5 billion annually on freight charges but doesn't bother to negotiate volume discounts with suppliers.*"

The Grace Commission's own backup material regarding this claim turns out not even to make the contention that the government "doesn't bother to negotiate volume discounts." In fact, it turns out that virtually all government freight is moved at rates discounted for volume.

The problem is a more subtle one. Before trucking deregulation, freight tariffs were fixed. Deregulation in 1980 produced an avalanche of different rates (similar to the situation for airline travelers). Suddenly, there were differences in fares charged for a given route and many lower tariffs for full-load shipments.

Deregulation opened up opportunities for savings on freight expenses, but the proliferation of rates increased the information-processing requirements for taking advantage of those possibilities. Very quickly, computer software companies began offering packages that allow a shipper to determine the cheapest available rate, and also to determine what shipments from several sources within the organization might be going to the same place at the same time, so that full-load discounts can be obtained. These systems have spread quickly in the private sector since 1980.

In 1981 the General Services Administration, which administers shipping for most of the government, began to look at these new computer systems, but decided they were still too new to try. In the summer of 1983 they decided to procure one, and the system they selected went on-line in March 1984.

The mailing list fiasco

(5) "*Government mailing lists erroneously repeat the same addresses as many as 29 times.*"

This statement, though ambiguous, seems to suggest that somewhere there is a government mailing list that has the same address on it 29 times, causing 29 copies of the same publication to be sent to one location. The implication is that government officials simply never bothered to check the list for such wasteful duplication.

This example of 29 repetitions comes from a 1980 effort by the Office of Human Development Services in HHS to improve its management of mailing lists. The Office was formed in the mid-1970s as an umbrella organization for a large number of already existing

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agencies, such as the Administration on Aging and the Administration for Children, Youth and Families. Each of these separate organizations, quite naturally, maintained its own mailing lists—usually, in fact, a number of different mailing lists, such as lists of subscribers to an agency magazine, media contacts, libraries, or recipients of grant award information. There were about 300 different mailing lists in all.

In 1979, a newly appointed manager of the Office of Public Affairs at Human Development Services persuaded his boss to authorize a project to centralize and modernize the organization's mailing lists. The 300 lists were combined into one master list. A "positive purge" was conducted, whereby every person on any of the lists had to return a card in order to stay on. The Public Affairs Office also began to rent commercially available lists—of libraries, professors of social work, etc.—as an alternative to maintaining and updating its own lists.

In the course of this project, it was discovered that one address (a social service agency) appeared 29 times. But this was 29 times on 300 different lists, and these 300 lists generally received different publications. In other words, the addressee might have been on one list to receive the *Mental Disability Law Reporter*, on another for press releases from the Administration on Aging, and on a third for information about grant availability from the Office of Handicapped Individuals. The addressee wasn't receiving 29 copies of any one publication. At worst, as the person in charge of the reform effort told me, an addressee appearing 29 times might receive five copies of a single publication—but only in the rare cases when a mailing went to several of the agency's *different* lists. There were certainly some examples of duplications on the same list: Although federal law requires annual canvassing of individual agency lists for duplication, compliance is mixed.

Although the quality of mailing list management within the government varies, there is no doubt that significant improvements could be made. There have been major changes in the mailing list business during the last decade, with the increased use of computers for list generation and management. Simple software now exists to purge lists of duplication, and with the growth of list brokers there is no longer any need for an organization to attempt to maintain its own lists of nursing home administrators, libraries, or public health professors. The government is now beginning to adapt to these changes.

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The scandal of seized assets

(6) "*The Justice Department just sits on the cash seized from criminals, not bothering to deposit the money in interest bearing accounts while cases are being adjudicated.*"

Traditionally, cash seized from criminals was indeed not deposited in interest-bearing accounts. "Not bothering," however, was not the reason. Prosecuting attorneys wanted the actual bills in hand, to impress juries with wads of ill-gotten lucre. Depositing the money would have meant losing the ability to show it to juries: The only thing available would have been a statement in a government bank account! Furthermore, some jurisdictions require that actual bills be submitted as evidence.

Until quite recently, very little cash was seized from criminal suspects. In the late 1970s, however, the Justice Department began actively to seize cash and physical assets (such as cars and boats) —and to seek their forfeiture—as a tactic against organized crime.

Soon thereafter, the Department realized that this vast quantity of physical assets had created a management problem. The Justice Department's policy was not to question legitimate third-party liens on seized assets, so that if there was a $110,000 loan outstanding on a $150,000 boat, the government would not contest the bank's right to collect $110,000 from the sale of the boat. The frequent problem is that the hypothetical boat might deteriorate badly while in the government's possession. When sold after being forfeited, less than $110,000 might be realized; the government would have to make up the difference. The local U.S. Attorney offices had no capability to manage seized assets while they awaited disposition (lawyers are experts at trying cases, not managing property), and no centralized management system had ever been developed because there were so few seized assets.

In 1981, the Justice Department appointed a task force to examine the management of seized assets. It issued a report in 1982, recommending that the Department establish a central organizational capability, through the U.S. Marshal Service, to manage seized assets for local U.S. Attorney offices. Agreement having been obtained within the Department (including from the U.S. Attorney offices), this new capability is now being established.

The shocking sloth of loan collectors

(7) "*HUD makes only 3 attempts to collect loans versus 24 to 36 tries in the private sector.*"

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This refers to loan collection procedures for two programs—a Housing and Urban Development credit insurance program for regular property improvement loans (Title I), and HUD's direct, subsidized loan program for property-improvement loans in disadvantaged areas (Section 312). Title I is an old program (enacted in 1934) that does not have income restrictions; Section 312 is a War on Poverty-era program that is targeted to poorer neighborhoods.

Again, the comparison the Grace Commission presents is exaggerated. First, the Grace Commission's own backup material refers to two or three loan collection tries per month in the private sector (compared to a total of three in HUD), but collection activity, in both the private sector and HUD, proceeds for only four months before legal action is commenced or the loan abandoned. The press packet figure of "24 to 36 tries in the private sector" comes from incorrectly assuming that collection activity at private banks goes on for an entire year. Even accepting the Grace Commission comparison at face value, the proper number is thus eight to 12 tries in the private sector, not 24 to 36. Second, HUD loan collection officers generally do not make a written record of telephone calls they make to delinquents, so Grace Commission investigators looking only at the written record underestimated the number of collection tries HUD made. Finally, and crucially, there has been collection activity on these loans *before* they are sent to HUD. Title I loans are made by regular banks, and Title I regulations mandate that the banks pursue their own normal debt-collection efforts before passing the loans on to HUD; for the Section 312 loans that HUD makes directly, Fannie Mae (the Federal National Mortgage Association), which services the loans, engages in some mild collection activity (dunning letters but no phone calls or contacts with an employer) before passing the loans on. HUD isn't starting from scratch on collections, as the Grace Commission's comparison suggests.

None of this is to suggest that there have been no problems with debt-collection at HUD. Although the regulations call for banks to pursue normal debt-collection efforts first, HUD officials concede that compliance is mixed. Also, when their own collection efforts fail, private banks give potentially collectible loans to private collection agencies, and HUD gives them to the Department of Justice for prosecution. Attorneys there have regarded these as low-priority cases and have not prosecuted them in a timely way—something that debt-collection experts regard as crucial to any chance of recovery. Finally, at least for Section 312 loans, management at HUD has probably always regarded these loans as a sort of disguised social

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assistance program, and has seen the idea of banging on the doors of poor people to get them to pay as distasteful. Loan collection efforts for the 312 program traditionally received little attention from top management. (The Title I program, by contrast, turns a profit for the government.)

The organization of debt collection at HUD has also failed to reflect changes in private debt collection practices. HUD standard operating procedures continued to call for personal dunning visits to delinquents, although banks had concluded over a decade ago that such efforts (earlier traditional in the industry) were generally not cost-effective. And HUD was very slow to computerize debt information, which resulted both in a great deal of clerical work for loan collectors (reducing the time available for collection activities) and in poor control over the status of files. The Section 312 program began to move toward computerization (and now to contracting out its debt collection to a private firm) after a critical report by the General Accounting Office in 1979; Title I has only recently computerized its collection activities, after a decision to do so was made by the assistant secretary appointed by President Reagan.

Fat City at the VA

Beyond the issue of nursing home beds, the Grace Commission made a number of specific contentions about Veterans Administration activities that are similar to private sector activities, but allegedly cost much more.

Perhaps the most dramatic was that it costs the VA $140 to process a claim for hospital coverage, compared to $3 to $6 for private sector insurance companies. This is wildly inaccurate. The Grace Commission listed the General Accounting Office as its source, but the GAO denies ever having made such a calculation. Dividing the total dollars spent by the total number of claims the VA processes yields a cost of $5-$7 per claim. This figure is still slightly higher than the private sector average, but the VA's claim-processing procedure is necessarily more complicated. In processing a claim, an insurance company often must determine only the amounts for which a beneficiary is covered. Statutes determining eligibility for VA medical care, by contrast, often restrict coverage to health problems related to service injuries, to emergency treatment, and so forth. This frequently requires extensive investigation. Whether VA claims-processing is still somewhat more costly even after these differences have been taken into account is hard to say.

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Also in the area of claims processing, the Grace Commission stated that it takes the VA 25 to 40 days of internal processing time (that is, after all the appropriate documentation had come in) to process a veteran's pension or compensation claim, compared to an average of four days in the private sector for processing similar long-term disability claims.

The Grace Commission contention is correct. The main reason for the difference is that the VA's procedure requires more layers of review. In the private sector, the entire process would typically be handled by a single person. The claim reviewer would request any information needed, review it, and authorize payment. The VA procedure, by contrast, involves four separate reviews. First, a medical rating board makes a medical judgment about the extent of disability. At this point local representatives of service organizations such as the American Legion examine and comment on the file, as authorized by statute. Then an adjudicator determines how much money the claimant will receive. And finally an authorizer reviews the case from scratch. This procedure is designed to provide safeguards for veterans.

The Commission also made two criticisms of the way the VA purchases drugs and supplies for its hospitals. The first was that the VA does not make sufficient use of bulk discounts. Proprietary hospital chains, the report stated, obtain 75 to 85 percent of their supplies through bulk purchases, the VA only 60 percent.

The Grace Commission figures are correct. Why the difference? Essentially, the explanation involves the fast pace of change in medical technology. New medical products come on the market constantly. They are typically used first at scattered local hospitals, where some doctor, one way or another, has found out about them. If the innovation is a good one, use will gradually spread, but in the early stages there is insufficient national demand to warrant national (i.e., bulk discounted) purchasing. Gradually, though, successful new products are bought in sufficient quantity to warrant this move. It is the slowness of the VA, compared with the private sector, in moving its purchases of new products from local to national contracts that accounts for the greater proportion of local purchases. This is because the VA's system for purchasing supplies is not computerized; other uses of the VA's computer budget have hitherto been regarded as higher priorities.

The other Commission criticism involved the method of storage for supplies procured through national contracts. Since the 1940s, the VA has operated central warehouses to supply individual hospi-

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tals. Products are delivered directly to warehouses and transported to individual hospitals as they are ordered. Advances in distribution technology, the Commission stated, have made warehouses uneconomical; proprietary hospital chains, the report said, have rejected warehousing.

The VA presents different figures. It claims that running a warehouse system adds only 15 percent to costs, not the 30 percent that the Grace Commission claimed. The VA claims that this 15 percent is more than offset by the lower prices that suppliers charge for single-point delivery to warehouses, as against multiple-point delivery to individual hospitals. They point to several studies by the General Accounting Office and the VA Inspector-General supporting the cost-effectiveness of the depots.

It is hard to know whom to believe. On the one hand, the VA provides specific dollar breakdowns of its costs for running the warehouses, while the Grace Commission merely cites "experts in materials management." What *is* clear, however, is that the VA does worry about the cost-effectiveness of running central warehouses. The VA generates computer data on each item procured to the warehouses, terminating those that do not meet its criteria for warehousing: When the warehouses were first established, *all* nationally-procured products went through them; now, only about half do. On the other hand, if private hospital chains have indeed considered and rejected a warehousing system, and if their situation is comparable, that is strong evidence on the other side. Top management at the VA, itself unsure, has now commissioned an outside consultant to study the warehouses.

Torpor at the GSA

Two of the specific Grace Commission claims about the GSA involve maintenance management and energy conservation.

The Commission claimed that "maintenance productivity," defined as the proportion of maintenance workers on the job at any given moment, was 60 to 65 percent in well-managed private firms but only 40 to 45 percent in the government. It is difficult to determine whether these claims are accurate. The "survey" of government performance to which the report referred turns out to have been, to put it generously, far more impressionistic than the report implies. A Commission member simply made casual observations at government locations he was visiting in connection with his other Commission responsibilities. That the evidence is impressionistic does not, of course, mean it is incorrect. The GSA itself doesn't gen-

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erally measure maintenance productivity the way the Grace Commission does (and differences in how to measure it are apparently quite common), so there is no hard evidence to contradict the report. But what one can say is that traditionally, in both the private and public sectors, maintenance was scheduled manually. Over the last five years or so, though, the private sector has come more and more to rely on computerized maintenance management systems. These decrease the non-productive time of maintenance workers by allowing them to perform several activities on each trip to a given building. The computerized systems also make it easy to compare the amount of time actually spent on a task with the standard amount of time for such a task.

In 1982 GSA began to investigate acquisition of such a computerized maintenance management system: Maintenance managers had seen these systems on exhibit at trade shows and read about them in the trade press. They wanted to keep up with the "state of the art." After examination of prototypes and delays for budget approval, a system has now been leased and has begun to operate.

On another subject, the Grace Commission stated that "although GSA has reduced annual energy costs significantly by daytime cleaning and other measures, little has been done to implement an Energy Management Control System, which has proved highly successful in the private sector." Such systems monitor data on building temperature and "enable heating and cooling units to be turned on and off —remotely and automatically—according to predetermined conditions."

But the "other measures" GSA has already taken accomplish much of what energy management control systems do. Government buildings already have timers and other devices to turn heating and cooling off and on. Buildings constructed since 1974 have centralized computer systems for this purpose. Consumption since 1973 in GSA buildings is down 30 percent even in the face of the rising demands owing to office automation. The Commission states that an energy management control system reduces consumption by 5 to 10 percent. GSA believes that the marginal benefit of adding such systems to the measures already undertaken rarely outweighs the marginal cost.

Waste in government?

There are a number of conclusions one can draw from all of this. First, the horror stories one hears are almost always gross exaggerations. What we have seen suggests that those responsible for the

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activities in question generally pay attention to costs, and have a fairly good sense of ways to keep them down. People are too quick to conclude that programs are wasteful when they think the programs are not worthwhile. But if the government efficiently delivers a worthless product, the criticism should be directed at the decision to deliver the product, not vented in charges of incompetence and venality against those making the deliveries.

Second, some differences between relative costs to government and to the private sector occur because the government, superficial similarities notwithstanding, is in fact producing something very different. This is most obviously the case when, for instance, the VA puts balconies outside its nursing home rooms. But it is also the case when agencies follow cumbersome procurement procedures designed not solely to procure certain goods, but also to ensure due-process for vendors and special aid for disadvantaged businesses. There may indeed be incentives in some government programs, such as those administered by the VA, to overproduce quality. And it may be that we are spending too much for due process. But the extra money entailed has not simply disappeared down a black hole.

Third, even after taking account of quality differences, it is probably true that government generally produces a given output less efficiently than the private sector. If I had to hazard a guess, I would say that the government might typically use, not four times or 17 times as many resources as the private sector to produce a given output, but perhaps 1.2 times. That is less dramatic, but it does add up. Even if it adds up only to several billion dollars, rather than to the Grace Commission's fantasy figures, such a sum is negligible only to those who, to paraphrase Everett Dirksen, have gotten so used to spending a billion here and a billion there that they forget it eventually adds up to real money.

Fourth, government is not very good at turning on a dime. As we have seen, there are many situations in which the environment changed—computer programs becoming available, for example—and it took more time for government to adapt than for the private sector. But, as we have also seen, the government does in fact adapt.

But if the Grace Commission exaggerates badly, waste is nonetheless a problem. We should, with modest expectations, still look to see what changes are possible that might, at the margin, improve things.

First, public managers should aggressively look for quantifiable measures of performance. How many complainants does an employee of a local Social Security office see each hour, how many

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complainants must return with the same problem, how satisfied are complainants with their treatment? Private sector experience suggests that such results-oriented measures can work well. In a number of the Grace Commission examples, managers did have good performance measures available, and performance in fact turned out to be competent. Sociologists and political scientists writing about organizations are remarkably sensitive to the difficulty of developing such measures for government, and to their possible perverse effects. (The literature is filled with observations along these lines: Judging the performance of an inspector by the number of inspections encourages cursory inspections, of small establishments only.)

But the private-sector doesn't seem to be as gloomy. Andrew Grove, president of the highly successful Silicon Valley firm Intel, notes the problem of the perverse consequences of performance indicators, but suggests that this can frequently be handled by developing *pairs* of measures. For example, companies keep inventories to avoid shortages, but carrying inventory costs money. If only shortages are measured, this will encourage overaccumulation of inventory. Therefore, he suggests, pair a measure of shortages with one of inventory carrying costs.

Second, government functions, particularly non-core functions, should be contracted out to private organizations if the same output can be produced more cheaply that way. The issue of contracting out services occasions enormous controversy, mostly of an ideological nature. Yet contracting out occurs all the time within the private sector itself, without ideological overtones. To take some traditional examples, large corporations hire advertising agencies and law firms, rather than keeping everything in-house. More recently there have emerged rapidly growing firms that provide laundry, food, and maintenance services for hospitals and businesses. Private sector firms frequently discover that specialized service providers are more efficient than in-house provision, because of various economies of scale. It shouldn't be surprising if this is frequently the case for government as well. If top management in government agencies prefers to devote its attention to grand issues of public policy, this is all the more reason to let other services be performed by those willing to toil in less glamorous vineyards.

Third, one spur to competent performance is a desire to live up to the standards of one's profession. The decision to adopt a computerized maintenance management system in GSA is a good example; the GSA officials regard themselves as professional building

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managers. More broadly, government officials may perform well because they are proud to be in the public service. They believe they are helping people who might not otherwise be helped. The very fact that the organization for which they work is not trying to "make a buck" can be a source of motivation. Whether or not businessmen believe that only the bottom line can motivate, GSA officials I spoke with made it clear that during the energy crisis they believed it was their patriotic duty to reduce energy consumption in government buildings.

Since living up to professional standards and keeping up with the profession are important substitutes for a missing marketplace environment, the development of a sense of identification with a larger professional community should usually be encouraged (though there are cases where professional identification can have a negative impact: If government lawyers can't conceive of any way to accomplish governmental purposes besides bringing lawsuits, we will have a problem). Since pay scales for top government managers will never be high enough to allow the public sector to motivate by appealing to the prospect of great personal wealth, this alternative will have to do.

More generally, we need desperately to foster within government the sense that public managers *are* indeed managers. At the end of his *Managing the Public's Business*, Laurence E. Lynn, Jr., who has had extensive experience in government, stated that improvments in governmental competence require that public managers "take the time to manage." This statement is noteworthy for what it suggests about current practice. One would think it superfluous, and certainly it would be if directed at most private sector managers. Yet many career government managers, promoted because they were good at lower-level jobs calling for individual accomplishment, are never told that being a good manager is not the same as being a good individual achiever; and many politically appointed executives have had no previous management experience. The increased use of management training for newly appointed career managers, as well as (if I may be permitted a bit of institutional chauvinism) the growth of professional schools in public policy and management, can contribute to the growth of this necessary culture of public management.

Finally, a number of institutional changes, some moderately difficult and others excruciatingly so, would help. Some changes in the budget process could address the problem of waste specifically. Annual appropriations cycles often waste money, since weapons

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systems and spare parts, for instance, may have to be ordered in uneconomical quantities in order to stay within the year's budget. There are cautious signs of willingness in Congress to accept multi-year procurements, as well as so-called "zero year appropriations," wherein an agency can spend a certain sum for capital equipment, but the year is not specified.

Furthermore, unlike a typical private firm, the federal government does not have a capital budget separate from its operating budget. In private firms, capital expenditures, such as plant and equipment, are not regarded only as current outlays, but also as sources of future revenues (or savings). If a manager wishes to invest $10 million in some new equipment, he needs to justify that the stream of future revenue (or savings) as a result of the investment is likely to be greater than the cost of capital for the investment. Normally, any investments that meet this test are approved, independent of how much or how little money that means spending during a given year.

The federal budget discourages this. The emphasis is, instead, on an overall level of expenditure, using the previous year's level as a baseline. It is often difficult to get "blips," in the form of lumpy single-year investments, approved, even if spending a chunk of money now will save lots more in the future. The government thus tends to underinvest in capital equipment, such as computers.

Larger, and much more difficult, institutional changes would address not just waste but the broader questions of government performance. One of the greatest differences between the public and the private sectors is the generally greater rule-boundedness in government. Procurement is a typical example: The resources spent on development of detailed functional product specifications to assure access to bidding by many competitors, the strict rules for accepting the lowest bids, the extensive clearances through which all procurement decisions must go to minimize corruption—these not only probably cost more money than they save (or else the private sector would generally use government-style procurement systems, which it doesn't), they also turn government officials into clerks. Rules and clearances also explain the frequent slowness of government's reactions to new situations. Public managers need to be freer to make decisions, to take initiatives, and to innovate; then they must be held responsible for the results.

Having said that, I am unable to present a proposal for making it happen. It is all too easy to understand the incentives that produce fixation, among elected officials and in the media, on wrong-

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doing, scandal, and horror stories—and hence on rules on clearances to prevent them from taking place. I have only two thoughts. One is that those concerned with public-sector performance need to think seriously about how to make marginal improvements that do not run afoul of these constraints: Are there ways, for example, to structure the procurement system to minimize kickbacks without forcing everything through multiple layers of review? The second thought is that when all else fails, a resort to the merits of the argument may be in order. There are certainly at least some journalists and elected officials who might emphasize a broader view of governmental accountability, if they can be persuaded that attention solely to wrongdoing hurts rather than helps the performance of government, not to speak of public confidence in our institutions.

Good performance by government consists of more than just controlling costs. It requires that elected officials and managers select worthwhile things for government to produce in the first place. And it requires that attention be paid to quality as well, since the cheapest way to produce something may not be the best way. The suggestions outlined here would, I believe, improve the overall quality of government performance, not just reduce waste. By contrast, efforts to "combat waste" by introducing additional rules and additional layers of control are likely to hinder good performance—and may, as the example of the procurement system suggests, not even reduce costs. Yet it is exactly the headline-grabbing horror stories, such as the ones in which the Grace Commission specialized, that lead more than anything to the development of ever-newer rules and clearance points. In this sense, the Grace Commission may have betrayed the "war on waste" it set out to wage.

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Rent control in Cambridge, Mass.

PETER NAVARRO

ON A WALL outside the Harvard Housing Office in Cambridge, Massachusetts, an anonymous street sage has inscribed the following day-glo painted message:

HELL is looking for an apartment in Cambridge
HEAVEN is finding one under rent control

Anyone who has had to look for rental housing in a rent-controlled community will detect more than a kernel of truth in this graffiti: Such a search can involve weeks, and sometimes months, of combing want ads, pounding the pavement, and finding a busy signal on the lines of landlords already besieged with callers seeking their coveted units. But for the chosen few whose search ends successfully, the payoff is heavenly: A lease on a rent-controlled apartment entitles the lucky bearer to accommodations that are 30 to 60 percent cheaper per month than an identical unit in the uncontrolled part of the market.

Between this heaven and hell lurk important questions, not just for policy-makers, but for all of us who will ever have to hunt for a new place to live or worry about being displaced from where we now call home. For example, do rent controls create a tight housing market in which it is impossible to find a place to live, or does a

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tight housing market create opportunities for unfair profiteering and in so doing create a need for controls? Similarly, are rents high in the absence of controls because renegade landlords and speculators gouge tenants, or do these higher, market rents merely reflect the inflationary pressures bearing down on all of life's necessities, from food and clothing to transportation? And does rent control really work; does it fulfill the goals proclaimed by many of its proponents, for example by protecting the health and welfare of the poor, elderly, and handicapped?

Finding the answers to these questions is all the more important because rent control is sweeping the country. Indeed, during the last decade, such major cities as Los Angeles, San Francisco, Washington, D.C., and Boston have all adopted controls, as have some nine states and over 200 local communities from Santa Monica, California to Cambridge, Massachusetts.

Two generations of rent control

While the last decade saw an explosion of rent controls across the country, the rent control movement is hardly new. The first generation of controls surfaced in response to emergency housing shortages created by World War I. Initially, these emergency controls were "limited to servicemen and their families and to workers engaged in the production of war material." But by the end of World War I, controls were extended in many areas to the total housing market as a means to curtail pervasive rent profiteering.

While controls in most communities were gradually abandoned after the Armistice, they were reimposed when World War II created a second emergency housing shortage. These controls were initially concentrated in service-related areas such as military installations, Atlantic and Pacific ports, and major inland defense production cities; but enabling legislation designated the entire country as eligible for controls and marked their first use on a national scale.

During the war and the immediate post-war period, a number of states, including Connecticut, Illinois, Maryland, Minnesota, and New Jersey, passed "standby" rent control legislation to become effective when federal controls lapsed. These statutes went into effect in 1950; but by the mid-1950s, New York was the only state that still retained controls.

All remained quiet on the rent control front for the better part of the next two decades—until the Nixon administration shattered the peace in 1971 with its wage, price, and rent freeze. Like previous federal rent control measures, the Nixon freeze was a temporary

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one, directed at a general (albeit peacetime) national emergency, namely, runaway inflation. Both prior to and in the wake of the Nixon freeze, however, many states and communities were seeking to impose controls of a different kind. These "second generation" controls were not temporary and absolute freezes related to a general emergency, but longer-term, peacetime economic controls that allowed for regulated rent increases, but left wages and prices alone.

Today, many of the conditions that precipitated the 1970s rent control movement persist. Mortgage interest rates remain stubbornly high and volatile, while the price of a single-family home or a condominium continues to escalate beyond the reach of more and more middle and lower income Americans. At the same time, the already-tight rental housing market is being further squeezed by a persistent stagnation in the construction of new apartment units.

Given these pressures, one must wonder whether the wave of peacetime rent controls that broke over the U.S. housing market in the 1970s will be followed by another, perhaps larger, wave of controls in the 1980s? If so, what will be the political causes and economic consequences? We can answer that question within the context of the rent control experience in Cambridge, Massachusetts, a city that has been at the vanguard of the new rent control movement.

On August 31, 1970, a year before the Nixon freeze, Massachusetts passed a state enabling act giving cities and towns with over 50,000 inhabitants the right to enact local rent control ordinances. A scant 14 days later, on a 7-2 vote by its city council, Cambridge became one of the first communities to adopt controls.

The Cambridge experience is a useful microcosm of the second generation of rent regulations, which are designed to be more adaptive to both overall and local economic conditions. If the major problems typically associated with rent control persist under this more innovative system, then the ritual indictment of rent control laid down by most economists will be all the more damning.

Controlling an "unfair" housing market

Drawing upon several court decisions from the 1920s, the Cambridge Rent Control Enabling Act asserts the constitutional right of the government to intervene in the housing market to prevent "serious threats to the public health, safety, and general welfare," while the source of those threats is identified as a "substantial and increasing shortage of rental housing accommodations" created by the failure of the housing market to produce an adequate supply of rental units.

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Both this market failure and the nature of these threats to the public welfare shed considerable light on the ideological principles implicit in the rent control debate. For example, the alleged failure of the free apartment market to provide sufficient housing at affordable prices is the fount from which flow all liberal arguments for rent control. The nature of this failure is imperfect (and therefore, unfair) competition, a problem which is tied to a number of characteristics peculiar to apartment units. Among the 14 that housing analyst Monica Lett lists are durability and long construction time, lack of sufficient information among tenants and landlords, and "market segmentation" (e.g., by neighborhood or size of units), which reduces the substitutability of one unit for another. When these market imperfections are combined with conditions like those which have periodically plagued the economy over the last decade —high interest rates, inflated construction costs, and community-imposed constraints on growth—the frequent result is a housing shortage during which tenants are vulnerable to rent-gouging.

Liberals in Cambridge have used precisely this argument, first to enact and later to perpetuate the rent control system. These advocates cite Cambridge's extremely low vacancy rate as evidence of a housing shortage, a rate which typically hovers below 3 percent and makes Cambridge one of the tightest apartment markets in America. One major reason for this tightness is the heavy demand for living space by the large numbers of students and other transients who regularly flock to this intellectual and cultural mecca. At the same time, since the late 1960s, young professionals have increasingly begun to spurn suburban living for the more gentrified urban existence of Cambridge. And on the supply side, dense building patterns and zoning regulations that curb growth limit the space available for new construction.

According to rent control proponents, it is primarily these conditions that set the stage for a rapid rise in Cambridge rents during the late 1960s and early 1970s. They justified rent control on the basis of several further ideological arguments related to the effects of market failure.

The first was that controls were needed to prevent an undesirable and inequitable redistribution of income from tenants to landlords as a result of rent gouging. To liberals, profits garnered from shortages are "unearned" in the sense that they are the result, not of any sweat from the landlord's brow, but of the failure of market supply to meet demand. Accordingly, the government—in this case the Cambridge City Council—has the right to limit the property

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rights of landlords through rent controls to prevent such a redistribution. (Conservative critics, of course, regard such a truncation as an unfair confiscation of landlord property.)

They also argued that the poor and elderly were threatened by profiteering landlords (inevitably portrayed as affluent property owners). Implicit in this characterization was a second important function of rent control: a more even distribution of income achieved through the subsidy of lower income tenants by higher income landlords.

The last, but in Cambridge hardly the least, important ideological argument for rent control centered upon the liberal concept of the community and the role of government in preserving that community. Besides a large student and transient population that clusters around the Harvard and MIT campuses and an influx of young professionals who have found living in Cambridge attractive, the city is also populated by diverse economic and ethnic groups. Large pockets of blacks, Irish, Italians, and Portuguese, and a significant elderly population, generally comprise the lower end of the city's income spectrum. The heavy apartment demand by the student-transient-professional troika creates a Hobson's choice for these ethnic and economic groups in the absence of rent control: Pay up or move out.

More often than not, the "move out" option means the displacement of lower and middle income families, who are forced from their homes by the invisible and impersonal hand of the market. This, in turn, means that the cohesive family fabric and colorful, cultural diversity of the community—viewed as an intrinsic good—is replaced by a more homogeneous and unstable population of wealthy (often single) professionals and students from upper income families. To liberals, this is not only economic discrimination, but it also creates great hardship for the displaced—particularly the elderly, for whom the burden of relocation is often the most heavy.

If one seeks an ideological explanation, then, it seems that Cambridge liberals have imposed and sustained rent controls on the basis of a judgment that the income distribution, displacement, and community effects generated by the failure of the apartment market are inequitable and undesirable.

Controlling the city council

Despite these compelling public interest arguments, an equally strong case can be made that special interests are responsible for rent control: A large voting majority of tenants has seized control of

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the Cambridge City Council and used its power to impose confiscatory controls on a small minority of landlords, many of whom live outside the city and don't vote in its elections. Seen in this light, the liberal case for rent control serves only as a rhetorical cloak for tenant interests who, aided by like-minded city councilors, have commandeered policy in their own behalf. In the same vein, the language of the enabling legislation, with its declaration of an emergency and warning of threats to the public welfare, may be interpreted as mere boilerplate, inserted by special interests to meet the requirements of past court decisions regarding the constitutionality of imposing rent controls.

For those who believe that dollars translate into votes, the sheer magnitude of the redistribution involved in rent control lends support to this second hypothesis. Consider that market rents run from 30 to 60 percent above controlled levels on the 18,000-plus rent controlled units in Cambridge and that the average monthly rent is roughly $275. This means that controls redistribute from $18 to $36 million dollars annually from landlords to tenants and that the average tenant enjoys an annual benefit of $1,000 to $2,000. Public interest arguments notwithstanding, such a "reward" provides tenants with a great incentive to play the rent control game to their advantage.

The nature of Cambridge politics lends further support to the notion that tenant self-interest plays a large role in promoting rent control. In Cambridge, the rent control issue has been the single most effective grassroots organizing tool for politicians seeking a seat on the City Council. While rent control was a somewhat peripheral political issue when the city first instituted it in 1970, it has since played a major role in every biennial City Council election. Its singular prominence in Cambridge elections is ultimately attributable to the ability of skillful political entrepreneurs working closely with major tenant organizations to rally tenant interests around the rent control flag.

The major tenants' organizations in Cambridge include the Alliance of Cambridge Tenants, the Harvard Tenants Union, the Cambridge Tenants Organization, the Word of Tenants Association and the unlikely sounding Simplex Steering Committee. These organizations have banded together into the powerful Cambridge Rent Control Coalition, which claims a membership of over 10,000. However, most of the activities pursued by the coalition are performed by a small core of activists who regularly appear at City Council meetings and Rent Control Board hearings. This pattern of a large

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interest group bloc led by a small activist elite is fairly typical of modern grassroots political movements.

However, it is not these tenant organizations which have played the most prominent role in making rent control an issue; rather, it is the Cambridge Civic Association (CCA), a political organization dedicated primarily to placing its slate of candidates in positions of power in the Cambridge government, from the school board to the city council.

A major plank of this avowedly liberal organization's platform has been the maintenance of rent controls. Since the imposition of these controls, it has successfully maintained four seats on the nine-seat council and, through a coalition with a fifth "independent" councilor, it has always been able to maintain a majority vote. The campaign tactics of the CCA's leading rent control advocate, Councilor David Sullivan, illustrate both the simplicity and power of local grassroots lobbying.

Sullivan, like all councilors, resides in Cambridge and, like some, lives in a rent-controlled apartment. Since 1975, he has campaigned for election and reelection throughout the year (as opposed to just near election time) by methodically knocking on the doors of Cambridge residents and explaining his positions. For such a "Johnny Appleseed" tactic, Sullivan incurs virtually no campaign costs other than shoeleather and time. His approach is very effective, since in a city of Cambridge's size it is possible to talk to virtually every resident in the time between two elections.

Moreover, Cambridge's unique system of "proportional voting" makes such a grassroots tactic particularly potent. Under that system, it is theoretically possible to win a seat on the Council by receiving less than 10 percent of the votes. Thus, if a candidate in Cambridge can nail down the strong support of only 2,500 people, he can win an election in which roughly 25,000 people vote.

At the same time, Sullivan has skillfully cultivated members of the press on such local papers as the *Cambridge Express* and *Cambridge Chronicle* as well as the *Boston Globe*. Like the CCA, he regularly "makes news" for his rent control stance. In doing so, he has made extremely effective use of a basic tool of the politician's trade, propaganda. For in espousing controls, Sullivan's liberal (or to critics, "leftist") rhetoric is laced with the language of naked power that Ralph Nader and his disciples have used so effectively: Landlords are ripping off tenants, powerful lobbies are blocking the will of the people, and developers are raping the Cambridge landscape. (When an opponent of rent control was appointed to be the land-

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lord representative on the Cambridge Rent Board, Sullivan unceremoniously dubbed the woman the "James Watt of Cambridge," attempting to paint her as a pawn of developers.) Running on an unadorned platform of the preservation of rent control, Sullivan has managed to hold his seat through several elections.

Cambridge politicians have thus been highly successful in mobilizing ordinarily weak and disorganized tenant interests into a solid voting bloc which regularly returns the CCA slate to power to look after tenant interests. In this effort, the rent control issue has proved to be the lightning rod of support.

Analysis of voting patterns in Cambridge reveals that support for rent control is based on roughly equal doses of ideological and self-serving motives. Neither of the two interpretations alone can serve as an explanation; in fact, it appears that controls have been imposed through a successful coalition of liberals and tenant interests. But do the benefits that accrue to tenants in rent-controlled units justify the costs imposed by the system and are the public interest goals of liberals actually well-served by rent control? These questions cannot be answered without looking at the economic consequences of rent control.

The high cost of control

On the subject of rent control, the economics profession has reached a rare consensus: Rent control creates many more problems than it solves. The primary effects of rent control, it is commonly agreed, are a reduction in the supply of rental housing, the deterioration of existing housing stock, and the erosion of a community's property tax base. Secondary problems include increased administrative costs, unemployment associated with what is known as tenant immobility or the "lock-in effect," increased energy consumption, and discrimination against tenants. The question, then, is whether the second-generation Cambridge controls have managed to avoid these problems typically associated with rent control.

The traditional argument that rent control *reduces the supply of rental housing* is based on the simple notion that real estate developers are motivated by profit: Because rent control reduces the profitability of an apartment building, it reduces the rate at which such buildings will be constructed. Instead, developers will choose to build de-controlled new homes, condominiums, office buildings, or simply not to build at all, investing their funds elsewhere.

Rent control advocates answer this argument by pointing out that virtually every rent control law (including Cambridge's) exempts

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new rental housing from controls. But rent control critics reply that these exemptions hardly solve the problem. As Monica Lett has written:

> It is not apparent that even blanket exemption encourages new construction since the housing industry is often fearful that the exemption may be withdrawn at a later date. In this regard, New York City provides an example. After exempting all units constructed after February 1, 1947 in its original rent control law, twenty-three years later, the city imposed rent stabilization regulations on these structures.

Despite this controversy, the data appear to be generally consistent with the idea that controls reduce construction. For example, in England, where controls have been in effect for over 60 years, rental housing has shrunk from 61 percent to less than 15 percent of the country's total housing. Similarly, New York has seen both the total number of its units and percentage of renters shrink, as has the District of Columbia which now has 8,000 fewer rental units and has experienced a sharp decline in the issuance of multi-family building permits since controls were imposed there.

In Cambridge, however, the problem is not so much a lack of new construction but rather a landlord shift to condominium conversions. Indeed, as befits a modern system of rent control, condo conversions represent a modern source of rental housing loss. In the absence of restrictions, the conversion option provides landlords with a relatively easy and convenient form of escape from rent controls. This "landlord's loophole" is also very lucrative, as condominium conversion provides landlords with a selling price as much as double that of simply selling their property as a controlled rental unit.

Currently, Cambridge has very strict controls on condominium conversion. But before this loophole was closed, roughly 10 percent of the city's rent-controlled housing stock was converted to condominiums and moved out from under the grasp of the ordinance. As a result, the share of renter-occupied private units has shrunk from 75 percent in 1970, to 72 percent in 1975, to 66 percent in 1980.

Today, however, the condo ban is under even greater siege than the rent control law itself. Ironically, much of the pressure comes from tenants in rent-controlled buildings who feel they are being unfairly denied the right to buy their units. Thus, if the condo ban is repealed (or overturned in a case pending in the courts), the city can expect an even further reduction of its rent-controlled stock. It is worth mentioning that rent control also creates an incentive to demolish rental buildings prematurely—either legally or through arson—and to build uncontrolled dwellings in their place. In Cambridge, for example, there have been a number of "forced demoli-

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tions" through fires, some of suspicious origins. In place of these burned-out shells have arisen condominiums.

The second and perhaps most indisputable problem with rent control is that it leads to the *deterioration of existing apartment units*. When operations and maintenance expenses rise with inflation, the landlord typically has three options: raise rents, decrease or defer expenses, or sell out and reinvest in something more lucrative. Rent control places an obvious limit on the first option and discourages the third because it depresses the selling price of a controlled building. Typically, the landlord is left with the second option and the result is that he skimps on expenses in order to preserve his net operating income.

While the short-term effects of this strategy may be slight, there is an avalanche of evidence that the long term effects are anything but slight. For example, in separate studies of New York's "30-year rent control emergency," economists John Moorhouse and George Sternlieb found that controlled units had less maintenance, were of lower quality, and had more deterioration than uncontrolled units. Joel Brenner and Herbert Franklin have drawn a similar conclusion about controls in England and France, and in a case study of Boston, Monica Lett estimated that for maintenance alone, landlords spent almost $50 less per year on each unit of controlled buildings.

In the most comprehensive study of Cambridge to date, Professor Herman Leonard of Harvard found corroborating evidence of such skimping. Because the Cambridge system makes rent adjustments on the basis of historical data and because there are delays involved in granting adjustments, inflation is allowed to erode the value of rent increases. As a result, landlords receive "only 70 to 75 percent of the amount designated by the Rent Control Board as 'fair'" which, in Leonard's words, constitutes a "dramatic squeeze" on the landlord's operating margin. According to Leonard, this and other flaws in Cambridge's system translate into less upkeep, lower quality, and faster deterioration of the city's rent-controlled stock.

The third problem with rent control, *erosion of the community tax base*, is perhaps the most crucial issue (and often the least understood) in the rent control controversy. But the logic of this effect is simple: Rent controls lower the rental income of a piece of property, and this in turn lowers the market value of the property, since that value is nothing more than the capitalized value of the rent stream. Because tax assessments are based on a property's market value, the amount of taxes the owner pays shrinks with the reduction in rents.

For example, suppose that in a given community landlords pay taxes roughly equal to 20 percent of their rental income. Thus, for

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every dollar that rents are reduced due to controls, the taxing authority forgoes 20 cents. For an apartment valued at $250 per month with a rent ceiling of $200 per month, the difference in annual rents is $600, and the taxes foregone by the community equal $120 annually.

Again, the general evidence of the existence and magnitude of this loss is incontrovertible. For example, Elizabeth Roistacher estimates that controls in New York City have cost a whopping $115 million annually in foregone taxes. In Cambridge, Leonard found the actual tax loss to be considerable—$5 to $10 million per year, a figure which constitutes 10 to 20 percent of Cambridge's $50 million property tax base.

This loss in tax revenues is in turn reflected either in a higher tax burden for home owners and tenants in the non-controlled segment of the apartment market or a reduction in municipal services, or both. Given that: (1) the cost of municipal services is rising, (2) "backlash" votes like Proposition 13 in California and Proposition 2½ in Massachusetts have restricted property tax increases, and (3) the property tax is the single largest source of revenue in virtually all local communities, this erosion of the tax base is potentially devastating to cities' efforts to balance their budgets. At the same time, it represents a hidden drain on city coffers that far exceeds the city's reported expenditures on running its rent control system.

Tenants: locked in or left out

Besides the primary economic costs relating to the supply and quality of the housing stock and the size of the community tax base, rent control can also generate a number of well-acknowledged secondary costs.

The first such cost is that of *supporting the bureaucracy which administers rent controls*. In Cambridge, for example, the annual budget for the city's rent control board and related rent control activities runs to about $700,000. That means it costs taxpayers about $40 in regulatory costs for each of the roughly 18,000 apartment units under control. These regulatory costs are, however, merely the tip of the iceberg regarding treasury costs since, as we have seen, the $700,000 budgetary allocation constitutes a small fraction of the $5 to $10 million in lost property tax revenues.

A second, potentially more serious cost can be traced to the *immobilization of tenants* that rent control induces. Because of the rental "bargain" that tenants in controlled units enjoy and because controls can make it difficult to find similarly-priced accomodations elsewhere, there is a tendency for tenants to "stay put." In their

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study of the Los Angeles experience, Rand researchers found a clear "trend toward declining mobility of renter households" under rent control, as measured by the percentage of renters moving annually. Similarly, drawing on the Austrian experience, F.A. Hayek reports that Vienna's tram traffic doubled between 1913 and 1928, primarily because of inhibited mobility due to rent control.

One consequence of this "lock-in effect" is increased unemployment as workers are less willing to commute longer distances to find and hold jobs. Similarly, there is less flexibility and job-switching in the labor force; as a result, labor resources are distributed less effectively because workers are less responsive to wage signals in the job market.

Despite evidence of this "lock-in effect" elsewhere, it is doubtful that Cambridge suffers very seriously from this particular malady. In fact, Leonard reports a fairly rapid turnover in Cambridge, even in controlled units. But, as we shall see below, this high turnover rate is a double-edged sword: while minimizing "lock-in," it helps to thwart one of the stated goals of rent control, namely, preservation of a diverse community.

Another secondary effect is an *increase in energy consumption*. This inefficiency results from two factors. First, to the extent the "lock-in effect" leads to longer commutes, workers consume more gasoline. Second, and perhaps more relevant to Cambridge, the city's rent control mechanism provides little incentive for landlords to conserve fuel because of a "dollar-for-dollar" clause which allows landlords to pass any increase in fuel expenses directly through to tenants. Such pass-through clauses exacerbate a problem that is endemic to rental property in general since renters are typically charged for heat as part of their rent. This gives the renter little incentive to conserve and the landlords little incentive to install conservation devices.

The final, not inconsequential, secondary cost of rent control is that, ironically, it provides landlords with an *expanded opportunity to discriminate* among precisely those kinds of tenants—ethnic and racial groups, families, and people of low income—that it was designed to protect. In particular, when landlords are not able to discriminate among tenants on the basis of price, they are likely to choose tenants more to their liking from the long line of potential renters queuing up for their bargain apartments. Those likely to be discriminated against include not only ethnic and racial groups (e.g., Italians or blacks), but also families with children and lower-income, less credit-worthy tenants. As an example of this form of

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discrimination in Cambridge, Jeffrey Stearns has noted that "due to the high demand for housing in the city, landlords prefer and are able to rent their units to higher income tenants not receiving public subsidies."

This excess demand and queuing for rent control units also creates what economists call "non-price rationing" abuses. As Charles Baird has noted:

> If the explicit rent on a dwelling unit is kept below what the supply and demand would generate in an unregulated market, the landlord and tenants may agree that in order for a tenant to get occupancy, a large nonrefundable key deposit, cleaning deposit, or security deposit must be paid; they might agree that the tenants will pay for maintenance and repairs; they might agree that the tenants will purchase the secondhand furniture in the apartment for new furniture prices; or they might agree that each tenant will simply make an unrecorded cash payment to the landlord.

Proof of such abuses is necessarily anecdotal, but in Cambridge, as elsewhere in rent-controlled communities, anecdotes abound.

In summary, rent controls typically impose a number of both primary and secondary economic costs on communities that adopt them. From the universe of these costs, it appears that Cambridge suffers in some degree from almost all of these symptoms. Housing supply and quality appear to have been reduced, and the tax base has been significantly eroded. And while the city incurs relatively small administrative costs to run the system, there is indirect evidence that rent controls have also led to some discrimination, abuses of tenants, and possibly increased energy consumption, mostly of fuel oil (New England's primary heating fuel).

But do the benefits of rent control compensate for this diverse array of economic costs, and in conferring those benefits, are the ideologically-oriented, public interest goals of rent control achieved? The answer to both these questions appears to be no.

Who really profits?

The indisputably largest benefit of rent control accrues to tenants in the form of *rent deductions*. As noted above, the average Cambridge market rents are 30 to 60 percent higher than controlled rents, which average about $275 per month. Thus, the typical tenant in a rent controlled unit saves about $1000 to $2000 a year, which can constitute a substantial fraction of an individual's or family's income in the low and moderate ranges. However, having given rent control its major due, there are several additional considerations that must be taken into account which diminish the size of this ostensible benefit.

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First, while this rent reduction is pure gravy to tenants in the short run, much or all of the gain is eroded over the long run by the reduction in housing services that is caused by the squeeze on expenditures discussed earlier. To the extent that landlords cut back on operating and maintenance expenses and allow their property to deteriorate, the quality and flow of housing services to tenants are reduced: Heat may be lowered and supplied more erratically, halls may be swept less frequently, the exteriors may be allowed to chip and peel, the plumbing may drip and leak, and there may be an increase in roaches or mice infestations as exterminator visits are reduced.

Thus, although tenants may *pay less* for their rent-controlled apartment, over time, the regulated landlord *provides less*. That means in order to calculate the net benefits of rent control to tenants, one must subtract this "deterioration effect" from the gross rent reduction. For example, in their analysis of Los Angeles, Rand researchers found that a 3.5 percent rent reduction from controls was partially offset by a 2.2 percent deterioration, for a net rent benefit of only 1.3 percent to tenants.

But even if the gain is smaller than it appears, tenants are still winners in the rent control policy game, right? Well, not exactly. The proper answer to that question is that while some tenants win, other tenants unquestionably lose. Consider the Cambridge housing stock. Rent control covers only about 50 percent of the total rental market. While rent control unquestionably reduces rents of tenants in rent-controlled units, it actually *increases* rents of tenants in uncontrolled units.

First, recall that in Cambridge, rent control means that landlords of rent control buildings pay $5 to $10 million less in property taxes because of the lower assessed values of their properties. If the city does not raise this revenue elsewhere, then everyone in Cambridge—tenants, landlords, home owners—shares this loss in the form of reduced city services. However, to the extent that the city raises taxes on uncontrolled property to offset the loss, the tax burden is shifted not only to single family homeowners, but also to tenants in the uncontrolled market. These tenants must bear part or all of the increase in the tax because landlords of uncontrolled apartments will pass it through to them in the form of higher rents.

At the same time, to the extent that controls reduce housing supply, excess demand drives up rents in the only sector where rents can rise—the uncontrolled sector. Thus prospective tenants not only pay more but also find their search for housing much more difficult and time-consuming than it otherwise would be.

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What we have then is a situation in which, at best, only *half* of the tenants in Cambridge benefit from rent reductions while the other half, as well as those waiting in the wings to move into the community, actually suffer from higher rents and a harder search.

The next logical question, which also relates to the avowed ideological goals of rent control, is whether there is something special about rent-controlled tenants that warrants discrimination in their favor by the rent control system. Surprisingly, the answer is no. In examining the composition of tenants in the controlled versus uncontrolled sector, both Kirk McClure and Leonard found the two groups to be very similar in terms of distribution of income as well as the distribution of the elderly, students, professionals, and families. In other words, the poor, the elderly, and families—the three major groups targeted for benefits of rent control—were no more likely to be found in controlled than uncontrolled units.

This finding not only raises a disturbing question of equity—why does one group of tenants gain at the expense of another virtually identical group—but also casts doubt on the ability of rent control to meet its two major ideologically-motivated public interest goals, namely, income redistribution and the preservation of the community.

Rich tenants, poor landlords

Advocates justify this redistribution on the assumption that poor tenants receive this transfer of wealth from "rich" landlords. As a general proposition, this Robin Hood characterization of rent control is simply wrong: Richard Ault points out, for example, that there is no body of evidence indicating that tenants have significantly lower incomes than landlords. At the same time, there is a good bit of both systematic and anecdotal evidence to suggest that landlords are sometimes worse off than their tenants.

But the redistributive effects can be analyzed more precisely in terms of a "targeting efficiency": What percentage of "deserving" households in the low and moderate income range actually occupy rent-controlled housing? As a general rule, the targeting efficiency of rent control and therefore its ability to help low income groups is very poor.

For example, in Los Angeles, only 48 percent of the households under rent control were occupied by low income tenants, while the remaining 52 percent were occupied by the middle and upper income brackets. In Cambridge, the targeting of rent control benefits is even worse. Only 35 percent of the tenants in controlled units had incomes of $10,000 or less, while 17 percent of the tenants had incomes over $25,000.

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Thus, both as a program to redistribute income to the poor and as a means of specifically helping the elderly and families, the Cambridge rent control system is an extremely blunt and ineffective tool. Rather than targeting those groups of tenants the city has said it wants to protect, it merely provides assistance to a broad range of households: some rich, some poor, some elderly, and some students and professionals.

As for the goal of preserving a heterogeneous, culturally colorful, and cohesive community, it turns out that despite the apparent bargain in rent controlled units, most such units are vacated and then re-rented at least once every five years, and virtually all turn over once in a decade. When one tenant leaves, there is no guarantee that landlords will choose a new tenant from among the groups preferred by the city—the elderly, families, and low-income households. In fact, one might expect just the opposite for several reasons.

Landlords are more likely to exercise the expanded opportunity that rent control offers by discriminating precisely against those groups the city wants to protect: lower income individuals who are often viewed as less credit-worthy, families with children who cause more "wear and tear" on unit interiors, the elderly for fear they will be impossible to evict in the event of non-payment of rent. And blacks and Hispanics are less likely to win the favor of some white landlords who can instead choose a young and wealthy white professional.

Given these dynamics and the pressures bearing down upon Cambridge from the heavy influx of the student-transient-professional troika, it should not be surprising that apartment occupancy *trends* between the 1970 census (the year controls were first imposed) and the 1980 census indicate that rent control has failed miserably in its attempt to protect the community from broad-sweeping demographic changes. The number of families occupying rent controlled units has fallen a dramatic 50 percent, while both the total number of students and fraction of student households has nearly doubled, so that where students were once roughly one out of ten occupants, they are now roughly one out of five. At the same time, while the fraction of elderly households has suffered only a modest decline over the decade (falling from 18 to 15 percent), the number of professional households has doubled, so that while students and professionals once occupied only one-sixth of the controlled units, they now occupy about one-third.

In uncovering these trends, Professor Leonard concludes that "while rent controls may perhaps be able to insulate *individual*

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households from market forces to some degree, controls do not appear to be able to insulate the community from evolutionary changes."

Decontrolling

For communities which have or are considering rent control, the general policy prescription that emerges from the Cambridge experience is straightforward: Abandon controls and seek more effective and efficient policies to achieve the range of public interest goals that rent regulation seeks to attain. How such a general policy prescription will be administered will necessarily depend on the ideological bias of the particular community, for there will be inevitable controversy over both the range of goals pursued and the policy approach. For example, both liberals and conservatives may agree that the goal of alleviating a housing shortage and lowering the attendant high rents is desirable. But liberals may lean more towards a public housing program to alleviate that shortage, whereas conservatives may favor stimulating the private market through tax incentives to develop or "unfetter" that market through re-zoning that allows more growth and bigger buildings. Similarly, liberals and conservatives will doubtless differ on the merits of income redistribution and the preservation of ethnically and economically diverse neighborhoods. But surely rent control can no longer be considered as a means to implement these goals.

Unfortunately, the final problem rent controls create is how to abandon them without an enormous "rent shock" to tenants, for the longer control is in place, the larger is the gap between market and controlled rents.

Among the major cities that have removed controls in recent times—Boston, Los Angeles, Washington, D.C.—the preferred method seems to be *vacancy decontrol*. Under this policy option, rent control remains in effect until the tenants who occupied the units at the time they were decontrolled elect to move out.

The primary virtue of this approach is that decontrol occurs gradually. Most policymakers, therefore, find this type of transition politically more palatable than simply taking the lid off pent-up rents all at once. However, one unfortunate side effect is that vacancy decontrol amplifies the lock-in effect: Some tenants are apt to cling even more tenaciously to their rental bargain. A better option might be *phased decontrol*. Under this option, which is similar to the gradual lifting of oil and natural gas price controls, controlled rents would be allowed to rise, say over a two or three year period, to

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market levels. Such a phase-in would both moderate rent shock and mute the lock-in effect. It would also give the city time to implement other policies to alleviate Cambridge's chronic housing shortage.

Obviously, the details of any decontrol and expanded housing assistance program would require painstaking months of planning. But in the final analysis, any ideological debate over issues like the size of the public housing sector or the amount of desired redistribution should not obscure the incontrovertible fact that in communities that have rent control, such regulation has not solved any problems; accordingly, there should at least be a consensus that such a system has no place in either the liberal's or the conservative's conception of the public interest.

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How to make sense of the deficit

ROBERT EISNER & PAUL J. PIEPER

DEBT AND DEFICITS are like sin. To most of the public they are morally wrong, difficult to avoid, and not easy to keep track of. To some, the sheer magnitude of the federal debt, surpassing $1.6 trillion this year, suggests the danger of some kind of national bankruptcy. To others, the large and growing budget deficits, which have recently reached 6 percent of gross national product, are a harbinger of a new acceleration of inflation.

There has always been a certain amount of hysteria surrounding the federal debt and deficits. If we look into how they are calculated, though, we find that they are not always what they seem. And that has some important implications for past mistakes in economic policy—and potential future disasters.

First, some considerations, elementary to economists, if not widely understood by the public, as to how the debt and deficits are supposed to affect the economy. Government debt held within the nation is, to begin with, not a burden in the conventional sense of the private debt that individuals or business have to pay to outsiders. While the public, if it stops to think about it, is responsible for

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paying off the debt—if it is ever paid off, a rather big if—and is responsible for the interest payments on the debt, it is also the public itself which would be paid off and which receives the interest payments. In some sense, then, this can be considered a "wash," and one current neo-Ricardian view (associated more properly with the name of Robert Barro of the University of Rochester) suggests that the debt and increases in the debt really do not make *any* difference.

The still-dominant view, and we believe the correct one, is that the debt and changes in the debt *do* matter, because they affect private perceptions of wealth and hence affect private spending. Put simply, if we own government savings bonds, Treasury bills, or notes we feel richer. We value our holdings of government debt more highly than the "present value" we attach to the uncertain future tax burden which may be associated with them. and the wealthier we feel—either through our direct holdings of government debt, through the money backed by Federal Reserve holdings of the debt, or through expected pension or insurance payments from funds holding the debt—the more we feel free to spend. To the extent that more spending is desirable, because we are in a recession, more government debt is actually beneficial, however paradoxical it may seem. To the extent, however, that we are in an inflationary boom brought on by a surfeit of aggregate demand and spending, a high or greater government debt only adds to the problem.

It is in this context that we may appropriately view federal budget deficits. Essentially, while government expenditures in excess of revenues add to private incomes, the deficits add to private holding of government debt. This increased wealth in government debt induces more consumption spending, which will be realized in actual production of consumer goods, *if there is slack in the economy*. But it will engender only higher prices and inflation and higher interest rates if there is full employment.

But what does this presumed role of debt and deficits have to do with the debt and deficits of common parlance? By official measures, except for 1969, when we recorded a modest surplus of $3 billion, the government has run a deficit every year since 1960. Yet, until 1980, *real*, net federal debt (after adjustment for inflation and government financial assets) generally declined. And for those concerned not with the arguments just presented about the impact of government debt and deficits on private spending, but rather with a more elemental notion of potential government financial insolvency, it should be noted that, by 1980, the government's total assets far outweighed its debts, and its positive net worth was growing.

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How indeed could the government balance sheet move more and more into the black while it ran yearly deficits? The problem lies in the oddities of accounting, and federal government accounting in particular.

For one thing, the federal government does not have a separate capital budget. As a result, all federal expenditures for such things as public buildings, roads, harbors, post offices, trucks and computers become a part of the deficit, as if they were government consumption rather than investment in hard assets. Similarly, unlike private business, the government charges to current expense and the deficit the acquisition of materials for future use.

Under private accounting practices, the government's 1980 budget deficit of $61 billion would have been cut by a third, and the 1981 deficit of $62 billion by $27 billion. The corrections for 1982 and 1983 would have been even larger—$43 billion and $31 billion. But the official deficits then were also much larger—$112 billion and $186 billion.

But there is much more that distorts measures of government debt and deficits and their applications for the economy. A lot of this has to do with the tricks played by inflation. Let us begin to unravel some of those tricks and other distortions.

The debt: from par to market, from gross to net

First, government debt figures usually reflect the par or face value of government obligations. If the debt were overwhelmingly in very short-term securities or if interest rates did not change much over the life of securities, the difference between par and market values would be small. But in recent years neither of these conditions was met. A substantial amount of government obligations are medium and long-term. And with varying combinations of tight money and inflation, interest rates have generally soared and have varied substantially.

As is well known to investors, higher interest rates mean lower prices for outstanding debt securities. An originally-issued 10 percent bond, for example, promising to pay $100 per year, will no longer sell at or be worth its original $1,000 if interest rates have risen to 14 percent. Since anyone who lends $1,000 when the rate of interest is 14 percent can receive $140 per year, no one will be willing to pay $1,000 for a bond paying only $100 per year. Hence, the market price of the $1,000 face-value, 10 percent bond must fall until the $100 per year return on that *market* price is equivalent to the 14 percent rate on new securities and in the market generally.

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Table I. Market to Par Indices (100 = Par), Selected Years[a]

	U.S. Government Securities			
	Total	*Bills*	*Notes*	*Notes; Bonds*
1946	102.71	99.95	100.47	103.58
1959	94.07	98.80	98.00	91.73
1969	92.04	97.69	94.99	89.23
1976	101.15	98.68	103.42	102.72
1977	98.31	98.10	99.64	98.43
1978	95.30	97.15	95.80	94.38
1979	94.44	96.64	95.47	93.38
1980	92.86	96.00	94.34	91.29

[a] Complete tables corresponding to this table and to Tables 3, 4 and 5, with data for all of the years from 1946 to 1980, are available from the authors on request. The sources for this table and those that follow are given in the authors' March 1984 *American Economic Review* article.

As a first step, therefore, one may construct market-to-par indices for major financial components of government balance sheets. We find then that, with par equal to 100, the market index for the composite of all U.S. government securities had fallen by the end of 1980 to 92.86 (as shown in Table I).

A second step is to recognize that the gross public debt is a correct measure of neither the total liabilities (interest-bearing and non-interest-bearing) of the federal government (including its associated credit agencies and the Federal Reserve) nor of the net debt, that is, the difference between total liabilities and total financial assets. We find, as indicated in Table II, that total liabilities associated with the U.S. government came, at the end of 1980, to $1,220 billion at par. The par value of financial assets amounted to $592 billion. Par value of net government debt was thus only $628 billion.

But the *market* value of total U.S. government liabilities was $1,154 billion, $66 billion less than its par value. The market value of U.S. government financial assets was $707 billion, or $115 billion more than par, reflecting a market value of gold $141 billion greater than the statutory figure which is based on the $42 per ounce at which gold is held in Treasury account books. Thus, the market value of U.S. government net debt in 1980 was $448 billion, a considerable cry from the original "gross public debt" figure of $930 billion.

Like any business, the federal government also has some tangible assets. These include reproducible assets in the form of residential structures, equipment, and inventories, which by BEA estimates at the end of 1980 had a net replacement cost, which we will take as market value, of $608 billion. We estimate land owned by the fed-

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Table II. The Budget Deficit, Gross Public Debt, and Market Value of Net Debt, 1980
(Billions of Dollars)

A. *Reconciliation of Gross Public Debt and Market Value of Net Debt*	
Gross Public Debt	930.2
+ Other Liabilities of Federal Government	120.1
+ Liabilities of Credit Agencies	188.2
+ Liabilities of Federal Reserve	173.8
− Debt held by Federal Government	− 192.46
Total U.S. Government Liabilities at Par	1,220.0
+ Par-to-Market Conversion	− 65.7
Total U.S. Government Liabilities at Market	1,154.3
Federal Government Financial Assets	225.3
+ Credit Agency Assets	192.54
+ Federal Reserve Assets[a]	173.8
Total U.S. Government Liabilities at Par[a]	591.7
+ Par-to-Market Conversion	115.0
On Gold	141.1
On Other Assets	− 26.1
Total U.S. Government Financial Assets at Market	706.7
U.S. Government Net Debt	447.5
B. *Reconciliation of Budget Deficit and Changes in Gross Public Debt*	
Budget Deficit on National Income Account	61.2
+ Insurance Credits to Households	+ 8.8
+ Change in U.S. Financial Assets	+ 26.0
+ Change in Treasury Debt Held by U.S. Government	+ 7.4
− Change in other U.S. Liabilities	− 11.0
− Mineral Rights Sales	− 6.5
− Statistical Discrepancy (Flow of Funds)	− 0.8
Change in Gross Public Debt	85.1

[a] Includes small amount of tangible Federal Reserve assets.

eral government at $119 billion. Total tangible assets at the end of 1980 were thus $727 billion.

We add $707 billion of financial assets to reach a total assets figure at the end of 1980 of $1,434 billion. We subtract liabilities of $1,154 billion. The result, shown in Table III, is a positive net worth of $279 billion.

The contrasting results for the series of gross Treasury debt and total liabilities on the one hand, and net debt and net worth on the other, are striking. Gross Treasury debt of $259 billion in 1946 had risen only to $321 billion by 1965, but then increased at an accelerating rate to $930 billion by the end of 1980 (and now of course to over $1.6 trillion). Net debt as late as 1966 was, at $223 billion, still below the 1946 high point of $226 billion. Net debt climbed thereafter to a total of $448 billion by the end of 1980.

Looking at what would for a private business be the bottom line, the net worth figures tell a different story, although a story that

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Table III. Federal Government Net Debt and Net Worth
(Billions of Dollars)

	1946	*1950*	*1960*	*1970*	*1980*
Assets					
Tangible	170.1	112.2	207.3	301.0	727.0
Reproducible Assets	162.6	102.6	188.9	264.6	607.6
Residential Structures	2.6	2.2	3.2	5.7	20.6
Nonresidential Structures	33.1	39.1	60.8	100.2	251.6
Equipment	75.4	34.4	65.6	95.3	202.4
Inventories	51.6	26.9	59.2	63.4	132.9
Land	7.5	9.5	18.4	36.4	119.5
Financial	74.2	93.9	117.8	218.0	706.7
Currency, Demand + Time Deposits	8.8	9.7	12.8	18.0	33.9
Gold	20.7	22.8	17.8	12.0	152.3
U.S. Government Securities	24.3	21.3	28.5	63.6	123.4
Treasury Issues	24.3	21.3	28.5	63.4	114.2
Agency Issues	0.0	0.0	0.0	0.2	9.2
Mortgages	2.1	2.8	10.9	31.5	126.2
Other Loans	8.1	16.0	25.0	64.8	199.7
Taxes Receivable	8.2	16.5	12.7	5.7	9.3
Miscellaneous Assets	2.0	4.7	10.0	22.2	62.0
TOTAL ASSETS	244.3	206.0	325.1	519.0	1,433.7
Liabilities					
Treasury Currency + SDR Certificates	2.4	2.4	2.7	6.0	13.6
Demand Deposits + Currency	30.4	28.2	30.6	52.0	121.5
Bank Reserves + Vault Cash	18.2	19.9	20.4	31.2	47.3
Credit Market Instruments	234.3	219.5	240.2	324.9	834.6
Savings Bonds	44.4	50.0	46.5	53.1	68.4
Other Treasury Issues	188.8	168.1	185.9	232.4	617.8
Agency Issues	1.2	1.8	7.8	39.3	148.4
Insurance, Retirement Reserves	8.0	12.7	20.5	34.9	85.5
Miscellaneous Liabilities	6.8	7.4	10.9	21.8	51.9
TOTAL LIABILITIES	300.1	290.0	325.2	407.7	1,154.3
Net Debt[a]	225.9	196.2	207.4	252.7	447.5
Net Worth	−55.9	−84.0	−0.1	48.3	279.4

[a] Total liabilities minus financial assets.

would hardly be unfamiliar to any successful large corporation. For all the while that gross Treasury debt, or even the difference between total liabilities and total financial assets which we have been calling net debt, was growing, so was net worth. By our measures, net worth was a negative $56 billion at the end of 1946, as shown in Table III. It became even more negative, finally reaching a lower bound of minus $92 billion at the end of 1949. But, by the end of 1956, the federal government was at least briefly in the black, with a net worth of $8 billion. Net worth was then trivially negative, hovering around zero, for the years 1960-62, before it again began to rise. It dipped in the 1974-75 recession and its wake, but came up very sharply in the next five years, when gross Treasury debt was

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soaring dramatically. We measure federal net worth at the end of 1980 at $279 billion. Our federal government, like many individuals and businesses that borrowed heavily in an inflationary period, came out pretty well with its investments in tangible assets—and in gold!

We may be reminded, however, that there are further complications. At the end of the 1982 fiscal year, for example, the Treasury listed "liabilities" accountable to the public of $1,085 billion, but it also reported obligations for "undelivered orders" (mainly of the Departments of Defense and Housing and Urban Development) of $475 billion and, dwarfing both, "contingency" obligations which summed to $6,982 billion.

These last comprised $347 billion in loan and credit guarantees and $2,080 billion in insurance commitments, largely for the Federal Deposit Insurance Corporation and the Federal Savings and Loan Investment Corporation, and "annuity programs," which totalled $4,474 billion. Of these, $836 billion were for retirement pay, chiefly for the armed forces and the civil service, and, as actuarial values of net obligations for the three Social Security Trust Funds, $578 billion for hospital insurance, $2,298 billion for old age and survivors insurance, and $656 billion in net assets for disability insurance. Adding together all the figures (which the Treasury does not do), we come to a total of $8,542 billion.

Such vast government obligations may well have a substantial impact on the economy. They are clearly, however, in varying ways different in character and implication from the formal, current debt. As the U.S. Treasury pointed out: "Clearly, there is a vast difference between items . . . where the liability is certain and relatively precise . . . and . . . where the possible future liability is highly speculative and may never arise . . . The [latter] amounts, if they can be projected at all, are stated . . . without regard to probability of occurrence and without deduction for existing and contingent assets which would be available . . . ."

It is clear that construction of relevant measures of government commitments that go beyond net current liabilities would take us far afield. It would also be subject to huge uncertainty regarding the anticipated tax receipts which may eventually be generated to meet the commitments. In any event, in our analysis here we shall take the narrower, Treasury measure of federal liabilities and exclude the present value of government personnel retirement provisions, the projected Social Security commitments under current law, and other "contingent" obligations.

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Table IV. The Real Value of Federal Debt

	Billions of 1972 Dollars					1972 Dollars	
	Gross Public Debt	*Net Debt*	*Budget Surplus (Deficit −)*	*Net Revaluation of Net Debt*	*Change in Net Debt*	*Net Debt per Capita*	*Change in Net Debt per Capita*
1946	539.2	470.1	8.0	−83.6	—	3,384	—
1950	459.1	350.8	17.2	−31.8	44.0	2,326	−338
1960	421.4	299.1	4.4	8.7	5.8	1,679	6
1970	415.3	269.9	−15.3	1.7	15.4	1,338	60
1975	445.9	278.9	−55.2	−2.2	57.3	1,320	259
1976	481.3	318.2	−40.2	−4.2	39.3	1,482	162
1977	498.6	320.5	−33.2	−37.9	2.3	1,482	0
1978	503.4	296.7	−19.5	−51.1	−23.8	1,364	−118
1979	496.6	244.8	−9.1	−71.4	−51.9	1,120	−244
1980	495.9	238.6	−34.5	−42.9	−6.2	1,078	−42

Deficits and real changes in net debt

Common sense suggests that when a person, business, or government runs a deficit, that is, spends more than it takes in, it must finance that deficit by increasing its debt. Thus, if the government had a debt of, say, $1,300 billion at the end of the 1983 fiscal year, and ran a deficit of $200 billion during the 1984 fiscal year, its debt at the end of the 1984 fiscal year would be $1,500 billion.

But, in fact, while the federal government reported budget deficits totalling $336 billion from 1947 to 1980, the market value of net federal debt grew by only $222 billion from the end of 1946 to the end of 1980 (Table III). And over that period, the *real* market value of that debt (in constant 1972 dollars) *declined* by $231 billion (Table IV). Even the usual measure of Treasury debt known as the gross public debt was no larger in 1980, in real terms, than in 1946. In fact, it declined (in 1972 dollars) from $539 billion to $496 billion. This reduction in real gross debt reflects large negative net revaluations, that is, changes in value of outstanding debt, net of changes in the price level. Higher interest rates lowering the market value of debt, higher prices of gold increasing the value of that government asset, and, particularly, general inflation, combined further to cut the real market value of the *net* debt virtually in half since the end of World War II.

This suggests that our conventional measure of the budget deficit is particularly misleading in periods of significant inflation and high and fluctuating nominal interest rates. Federal government net interest payments of $53 billion in 1980 were only modestly less

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Table V. Reconciliation of Federal Budget Surplus (Deficit) and Change in Real Net Debt

(1)	*Surplus (Deficit −) on National Income Accounts* (2)	*Interest Rate Effects (Par-to-Market Adjustment)* (3)	*Price Effects (Nominal to real adjustment)* (4)	*Adjusted Surplus (Deficit −)* (5)	*Off-Budget Items*[a] (6)	*Net Revaluation on Gold* (7)	*Decrease (Increase −) In Real Net Debt in Current Dollars* (8)
1976	−53.1	−12.5	21.2	−44.5	−4.2	−3.3	−52.0
1977	−46.4	16.9	29.3	−.2	−9.0	6.0	−3.3
1978	−29.2	18.6	43.3	32.7	−8.7	11.8	35.7
1979	−14.8	1.7	44.1	31.0	−9.8	63.6	84.9
1980	−61.2	12.6	55.9	7.3	−2.1	6.0	11.2

Note: Column (5) is total of cols. (2), (3), and (4); Column (8) is total of cols. (5), (6), and (7).

[a] This is the sum of insurance credits to households, federal mineral sales, credit agency surplus, net revaluations on foreign exchange and miscellaneous assets, and the Flow of Funds statistical discrepancy.

than the $61 billion deficit (on National Income Accounts). With interest rates on Treasury securities rising from about 11.5 percent to over 14 percent, net interest payments in 1981 came to $72 billion, well exceeding a $60 billion reported deficit. (For 1982, however, while net interest payments rose to $85 billion, the deficit on national income account soared to $150 billion.) But measures of real interest, taking into account inflation and changes in the real market value of the federal debt, would have been small fractions of nominal payments, or actually negative. *Substitution of real for nominal interest costs in budget expenditures would indicate that the budget was close to balanced in 1980*, a result consistent with the changes in the real value of the debt (Table V).

Of course, the population has been growing over the last 35 years. Our ultimate measure of the trend in debt then may well be the real net debt per capita. This figure declined (in 1972 dollars) from $3,384 at the end of 1946 to $1,078 at the end of 1980, as also shown in Table IV. Real debt per capita was thus, at the end of 1980, less than one-third of what it was at the end of 1946.

From the standpoint of fundamental and meaningful economic analysis, a proper measure of the government deficit is the increase in real value of government net debt. If the net debt is declining, whether because the government is taking in larger tax revenues than it is spending, or because of the effects of inflation, we should consider the government budget in surplus. The budget deficit is the amount that expenditures must be reduced to keep real net debt unchanged. If there were no net revaluations of existing financial assets and liabilities, this definition would correspond to conven-

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tional measures of the deficit. Net revaluations have in fact generally been considerable, however, as we have just noted, and all the more so in periods of significant inflation and high and fluctuating nominal interest rates.

As with the debt, therefore, we make two adjustments to the deficit, a par-to-market adjustment and a nominal-to-real adjustment. The first of these is the change in net debt due to changing market rates of interest, which we term the interest effect. With generally rising interest rates, this effect has been, on balance, positive in the postwar era, thus reducing the adjusted deficit.

The second and usually larger adjustment, incorporating what we denote as the price effect, is the change in the real value of the net debt due to changes in the price level. It has of course become of major importance with the higher inflation of the 1970s. By reducing our measure of the deficit by the amount of decrease in the real value of existing net government debt, we are in effect including the so-called "inflation tax" in budget revenues. Since inflation (and expected inflation) forces borrowers to offer higher nominal interest rates to compensate for the inflation tax on holders of securities, the price-effect adjustment may alternatively be viewed as a conversion of interest expenditures from nominal to real.

In Table V we show the interest and price effects to present an adjusted measure of the federal budget surplus or deficit. The conventional and the adjusted budgets prove quite different. The officially reported deficit of $61 billion in 1980, for example, is converted to a $7 billion surplus when price and interest effects are considered! And the adjustments have not been constant in amount; in earlier years, when inflation was lower, they were decidedly smaller.[1]

Adjusting the high-employment budget

What difference does all of this make? Can we say that the government has not really been spending too much or is taxing too little? Correctly evaluated, can past government fiscal policy really be considered too tight, causing recessions, rather than too expansive, causing inflation?

[1] The adjusted surplus, it will be noted, differs from the real change of government net debt, expressed in current dollars, by the amounts of the off-budget items and net revaluations of gold. We have excluded net revaluations on gold from the adjusted surplus on the principle that an increase in the value of government gold holdings, unlike an increase in the value of government holdings of private debt, does not decrease private net worth. It may indeed be argued, rather, that an increase in the value of gold will be perceived by the private sector as increased backing for government debt and thus as increased private wealth. Similar considerations apply to the off-budget items.

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To get at this question we must add a new measure, well known to economists, to avoid an all too frequent public confusion between causes and effects with regard to budget deficits, inflation, and recession. While, as we have pointed out earlier, a bigger budget deficit, other things equal, will tend to increase spending and hence be expansionary, a recession will itself produce a bigger budget deficit. For with a recession, tax payments, largely geared to income and profits, will be less, and government expenditures for welfare and unemployment benefits, in particular, will be larger. On the other hand, with inflation, higher incomes and prices have meant higher government tax revenues and hence a lower deficit or a surplus.

So, to measure *the effect of the budget on the economy* rather than *the effect of the economy on the budget*, we want to look at what the budget would be at some fixed level of economic activity or, more precisely, at some fixed level of employment or unemployment. Economists have therefore developed a cyclically-adjusted or "high-employment budget" surplus or deficit as a measure of the impact of the budget on the economy, separate from the reverse effect of the economy on the budget. It should be recognized that it does not really matter at what level of unemployment this hypothetical budget is estimated. The important thing is that the employment level used for the calculations reflects an essentially *constant* level of economic activity.

The high-employment budget, currently calculated for an unemployment level of 5.1 percent, is thus generally understood to provide a first-order measure of the thrust of federal fiscal policy on aggregate demand. Increases in the high-employment budget surplus, or decreases in the deficit, are viewed as contractionary.

But even looking at the official high-employment budget, we find a striking move toward deficit in recent years, in contrast to years before 1966. This has contributed to the view that, despite generally increasing inflation, which might have called for lower deficits and greater surpluses to slow the economy, the federal budget has been, perversely, expansionary. The depth and severity of the recession of 1981-82 have then been attributed to the great potency of a tight and tough monetary policy which has overbalanced an easy fiscal policy.

But for the high-employment budget to measure correctly the thrust of federal fiscal policy, it must also be corrected for the effects of inflation on the real value of net debt of the government, and hence the public's perceived net wealth, which affects its spending. *A deficit that does not increase the net debt of the government does*

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not increase the correctly-measured net income or net worth of the private sector, and hence does not *per se* have an expansionary effect on aggregate demand.

Perception of the gap in the relation between measured deficits and changes in net debt of the government, or net worth of the private sector, points to the major effect of inflation on a relevant high-employment budget. For inflation and changing rates of inflation break whatever links have existed between budget deficits and real income or changes in net worth of the private sector.

A measure of the real, actual surplus or deficit may be viewed as essentially the sum of three components: 1) the nominal surplus or deficit as currently measured; 2) an adjustment for changes in market value of government financial assets and liabilities due to changing market rates of interest; and 3) changes in the real value of net debt due to changing general price levels incident to inflation. An identical or analogous set of adjustments is appropriate for the high-employment budget surplus or deficit.

We have hence undertaken to calculate a high-employment budget that, by correcting for these inflation effects, comes closer to measuring the real surplus or deficit, and the consequent thrust of fiscal policy on aggregate demand. Applying our calculations of net revaluations on actual net federal debt, we have adjusted the official high-employment budget surplus series for the years 1955 through 1981. The results, shown in Table VI, are dramatic. Inflation and rates of interest were low and relatively steady in the early years of the period prior to escalation of our military involvement in Vietnam. Corrections to the high-employment budget surplus are hence small in those early years. In the years from our heavy Vietnam involvement on, however, when the high-employment budget as well as the actual budget moved substantially to deficit, the corrections are striking. *The entire perceived trend in the direction of fiscal ease or expansion is eliminated or reversed.* The fully adjusted high-employment budget surplus, as a percent of GNP, for every year from 1977 through 1981, was higher than the surplus of any single year going back to 1965, except for the tax-surcharge year of 1969 and the oil-price-shock year of 1974. With similar exceptions, the surplus adjusted only for price (and not interest) effects was higher in every year from 1978 to 1981 than that of any single year back to 1963.

This suggests a need for some significant rewriting of recent economic history. Inflation can hardly be ascribed to excess demand associated with increasing fiscal ease and stimulus if, at least by the

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Table VI. High-Employment Budget Surplus (Deficit) as Percent of GNP, Official and Adjusted

	High-Employment Surplus (Deficit −)		
	Official	*Adjusted for Price Effects*	*Adjusted for Price and Interest Effects*
1955	1.30	2.81	3.71
1956	1.87	3.83	4.63
1957	1.37	2.47	1.26
1958	0	.93	2.21
1959	1.11	2.09	2.90
1960	2.39	2.84	.98
1961	1.35	1.99	2.44
1962	.53	1.29	.91
1963	1.24	1.79	2.26
1964	.17	.78	.73
1965	.13	.98	1.42
1966	−.74	.34	.09
1967	−1.89	−.89	−.38
1968	−1.26	.06	.20
1969	.52	1.95	2.68
1970	−.46	.77	−.64
1971	−1.05	.12	−.21
1972	−1.02	.02	.42
1973	−.72	.89	1.13
1974	−.02	2.16	1.97
1975	−1.88	−.37	−.55
1976	−1.01	.22	−.52
1977	−1.13	.39	1.27
1978	−.70	1.30	2.16
1979	−.09	1.74	1.81
1980	−.81	1.31	1.63
1981	.15	1.92	1.97

high-employment budget measure, appropriately defined, there was no such movement to fiscal ease. Some explanation of sluggishness in the economy in the last several years, climaxed by the recent recession, may then be found in a relatively tight fiscal policy, as measured by the adjusted high-employment budget surplus, as well as in the widely perceived role of monetary policy.

The impact on the economy

Movements in real economic activity in the United States have in fact been negatively related to the high-employment budget surplus. Essentially, the greater the high-employment budget deficit, the greater were the real rate of growth of GNP and the increase in employment the following year.

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Precise statistical analysis of the relations (to be found in our March, 1984 *American Economic Review* article) reveals some striking facts about what has happened to the deficit and its impact, as inflation took hold of the economy. Up to 1966, when inflation was relatively minor, and little in the way of our inflation correction was necessary, budget deficits were really budget deficits. In that earlier period, therefore, even a balanced official high-employment budget tended to be associated with a healthy 5.7 percent growth in real GNP and an annual decline of 0.9 percentage points in unemployment.

In the period from 1967 on, however, when inflation became substantial, the officially balanced budget turned into one of surplus when inflation corrections were made. A balanced official high-employment budget in the later period, therefore, tended to produce a real rate of annual growth of GNP of only 0.5 percent. This in turn was associated with a 1.3 percent per year increase in the rate of unemployment. In that later period, the official high-employment budget would have had to be in deficit by some 1.77 percent of GNP in order to compensate for the inflation-erosion of the real value of the debt. Only if it had been in deficit by that amount could we have expected the increases in real GNP of some 5.7 percent and declines in unemployment of 0.9 percentage points per year associated with a balanced high-employment budget in the earlier, relatively inflation-free period.

After 1967, a balanced *inflation-adjusted*, high-employment budget would have been substantially expansionary, producing high rates of growth of GNP and declines in unemployment. But in fact, as late as 1981 we had a roughly balanced official high-employment budget, as shown in Table VI, while that budget, adjusted for inflation effects, was substantially in surplus, by about 2 percent of GNP. And each percentage point of surplus in the inflation-adjusted high-employment budget was associated with about 2.4 percentage points *reduction* in the rate of growth of real GNP and .95 percentage points *increase* in unemployment. It is these inflation-adjusted surpluses, the statistical relation indicates strongly, that largely accounted for the 1981-82 recession.

All of this suggests two important correctives to widespread views of fiscal and monetary policy. First, the 1981-82 recession cannot properly be interpreted as the triumph of all-powerful monetary constraints over relatively ineffective fiscal ease. Without denying the significant effects of a tight money policy in depressing the economy, it is necessary to point out that the verdict is not in on

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what might have happened if tight money had been pitted against *real* fiscal stimulus.

Second, the absence of real fiscal stimulus—and indeed the presence of some measure of fiscal tightness—makes clear the extent of the overkill of monetary restraint which contributed to the highest unemployment levels in almost two generations. Those who acquiesced in tight money as "the only game in town" to slow a presumably overheated, inflationary economy were wrong on two counts. The absence of increasing fiscal thrust reinforces the inference that inflation had come from supply shocks rather than excess demand. And the strong-willed rejection of accommodative monetary policy, rather than balancing budget excesses, offered a near lethal combination of monetary and fiscal contraction.

We have extended this analysis to consider the debt and budget deficit in six other developed, industrial economies—Canada, France, West Germany, Italy, Japan and the United Kingdom. We find some confirmation there of the relations imputed to the United States. For the countries outside of the United States, their own cyclically-adjusted budget deficits, when adjusted for inflation, do show some positive relation with subsequent change in real gross domestic product. There is also evidence that where countries' price-adjusted, cyclically-adjusted deficits were greater than such deficits in other countries, their growth in real product the next year was greater.

Indeed, the inflation adjustments resolve certain paradoxes and challenge some conventional notions. The case of West Germany has traditionally been cited as one of rapid growth with relatively little budget deficits and that of the United Kingdom and Italy as nations with very poor and moderate performance, respectively, with very large budget deficits. But when the inflation adjustments are applied, it turns out that West Germany, along with Japan —nations with relatively rapid rates of growth— had relatively expansionary budgets; Japan was most significantly in deficit. The United Kingdom, with its chronic stagnation, actually had a substantial surplus when inflation adjustments were included!

But the most striking note in our preliminary international analysis was that the inflation-adjusted high-employment deficit of the United States showed a very sharp, indeed dominant, positive relation with subsequent growth in real gross domestic product of the other nations. Whatever effect each country's budget posture had on its rate of growth, that paled before the effects on its own economy of the budget surplus or deficit of the United States!

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The implications of the inflation adjustments go beyond economic policy to fundamental issues of economic theory. As must be well known to laymen as well as professional economists, the Keynesian model of the economy, which came to dominate macroeconomic theory by the 1960s, came under major challenge in the 1970s. The motivation and foundation for the challenge, as indicated by leaders of the neoclassical and rational expectations counterrevolutions such as Milton Friedman and Robert Lucas of the University of Chicago, was that the policies generated by Keynesian theory were not working. A major specific charge was that Keynesians expected increases in budget deficits—aside from those brought on by recessions—to prove expansionary. Yet, the years of increasing high-employment budget deficits from the end of the Vietnam War on were associated with slower rates of growth and increasing unemployment. The Keynesian theory, it was then argued, was fundamentally flawed and new ideas—or the refurbishing of old ones—were in order.

Application of the inflation adjustments suggests sharply that this line of attack on the Keynesian revolution of a half century ago is unjustified. Budget surpluses do slow down the economy, and budget deficits, correctly measured, do prove expansionary. The Keynesian paragon, at this level of discourse at least, lives on. A successful challenge will have to look for other grounds.

What really matters, now and in the future?

With massive tax cuts and increases in military spending dwarfing reductions in non-military government outlay, fiscal policy took a sharp turn towards stimulus in 1982. This was measured in the official high-employment budget, which moved from a surplus equal to 0.15 percent of GNP in 1981 to a deficit of 1.08 percent of GNP in 1982. With the sharp decline in inflation and interest rates in 1982, the high-employment budget (adjusted for price and interest effects) moved from a surplus equal to 1.97 percent of GNP in the previous year to a deficit equal to 1.77 percent of GNP, as shown in Table VII—the greatest such swing to expansion on record. Our estimated relations between budget deficits and GNP and unemployment predicted a major swing to economic recovery and lower unemployment in 1983 and on into 1984, and that is of course precisely what occurred.

Congressional Budget Office estimates have indicated very large and increasing official high-employment budget deficits in the years ahead to 1988. It is not clear as yet that there have been substantial

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Table VII. Projected High-Employment Budget Surplus or Deficit as Percent of GNP, Official and Adjusted

Year	*High-Employment Budget Surplus (Deficit –)*		
	Official[a]	*Adjusted for Price Effects*	*Adjusted for Price and Interest Effects*
1981	0.15	1.92	1.97
1982	– 1.08	.01	– 1.77
1983	– 2.04	– .93	– .87
1984	– 2.59	– .92	– .50
1985	– 3.06	– 1.45	– 1.27
1986	– 3.38	– 1.70	– 2.25
1987	– 3.92	– 2.16	– 2.60
1988	– 4.38	– 2.52	– 2.23

[a] Years from 1982 to 1988 calculated from Congressional Budget Office figures furnished by Frank Russek.

changes in projected expenditures or in the tax structure that will alter that picture. What is particularly significant, though, is that current and projected rates of inflation do not now indicate that inflation adjustments to these official high-employment budget deficit projections will come anywhere close to wiping them out. Our equations would then predict, if we stayed on our current budget course, an amount of stimulus which would push real rates of growth to from 6 to 8 percent per year over the next half decade. One set of projections would bring the 1988 unemployment rate to an obviously impossible minus 0.8 percent!

This clearly indicates a collision course between the projected budget deficits and interest and inflation rates on the one hand, and the capacity of the economy on the other. If government expenditures are not significantly cut or taxes raised, the inevitable economic forces of supply and demand will solve the problem and force the adjustments. For inflation will then rekindle and interest rates will rise, the latter all the more so if the Federal Reserve, as expected, moves to try to curb the inflation by ever tighter monetary policy. But, as we have seen, rising interest rates and inflation mean declines in the real value of outstanding government debt. Hence the real, adjusted deficits will be eliminated by the very inflation and high interest rates which the deficits bring on.

The real story then is that debt and deficits do matter, but we must measure them correctly. When we do, we find that the debt had been declining substantially until a few years ago and the official deficits were really surpluses. These surpluses contributed greatly to the increasing stagnation of the economy in the last decade and to the major 1981-1982 recession.

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Despite their loud rejections—and ignorance—of the "old" Keynesian theory and policies, the Reagan administration's massive move to budget deficits, reinforced by lower rates of inflation, contributed significantly to the sharp recovery of 1983-84.

Continued ignorance and rejection of this analysis and the policies it implies can only lead to new economic trauma in the future.

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